

**The Politics of
Privatisation in Bangladesh**
Western Solutions, Eastern Problems

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Mobasser Monem



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PUBLICATIONS

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First Published 2006

Second Published 2014

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ISBN: 984-32-3379-4

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Cover Design

Mahfuzul islam

Published by **Osder Publications**, House 9/A (2nd Floor), Road 15 (New), 28 (Old), Dhanmondi R/A, Dhaka 1209, *Business Office*: 131 DIT Extension Road, Dhaka-1000. Bangladesh and printed by Osder Printers.

Printed in Bangladesh, June 2014

Price BDT 500.00, US\$ 25

This book is dedicated to the cherished memories of my deceased parents-**Abdul Monem and Khodeza Monem**- who talked about a common dream during my childhood— which made very little sense to me at that point of time, much later I realised what they dreamt of and now I know how effectively they moulded my mind to pursue it...

Foreword

Since the 1980s, governments across the world that receive assistance from international donors have been pressed to privatise state-owned enterprises. Successive governments in Bangladesh have gone further down this road than many of their counterparts elsewhere. At first glance, the country therefore appears to have moved forward towards the donors' goal of a more market-oriented economy, less encumbered by the state. But the reality of what has happened, when analysed objectively and in detail, is more complex and ambiguous. This is a story that cries out to be told, carefully and dispassionately. And that is what we find in this fine study by Mobasser Monem.

He examines successful efforts by politicians in Bangladesh to turn the process of privatisation to their own partisan advantage. This occurred under three successive regimes – a military dictatorship and two different democratic governments. Enterprises were sold to well-connected persons who funded their purchases with money borrowed from state-owned banks. In many cases, they then declined to repay those loans, and got away with it because they had close ties to politicians. Thus, what is called 'privatisation' actually entailed the recycling of public funds.

This very curious form of 'privatisation' – which has parallels in several other less developed countries – brought into being a new Bangladeshi political elite consisting of well-connected industrialists which dominates the parliamentary delegations of both major political parties.

This book explains how this occurred and what its implications are in a country whose population consists overwhelmingly of poor rural dwellers. The management – or, one might say, the manipulation – of 'privatisation' has left Bangladesh with a political elite that is very shallowly and inadequately embedded within the wider society. That elite appears unlikely to pay adequate attention to the needs of the rural masses. It is also arguable that extensive 'privatisation' has done little to erode the influence of the state and politicians over public affairs.

The book has one other important virtue. For many years, numerous supposed analyses of the 'politics' of Bangladesh have actually focused on public administration rather than on the interplay of forces contending for power. This is true of work by people in international development agencies, by scholars from outside the

country, and by Bangladeshi social scientists. Much of this work is valuable, but it is not about ‘politics’.

This book serves as a welcome corrective to this trend. It reminds us that ‘politics’ matters – that ‘politics’ can override the tidy plans of technocrats and produce very different outcomes from those which economic liberalisers intend. We must hope that it inspires others to pay more attention to this decisively important area.

February, 2005

Professor James Manor
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United Kingdom.

Preface

A fuller understanding of the interaction between politics and economics is essential if politics is to be a tool for sound development policy making rather than a hindrance. And without constructive use of political processes, there is little chance for successful economic reform. Therefore, this study identifies and examines the political dimensions of an important economic reform measure, namely, privatisation policy. Bangladesh has been pursuing privatisation for over two decades. This policy has been shaped by numerous economic and extra-economic factors and actors. Until now, there has been very few studies of privatisation in Bangladesh. Those that exist only deal with the economic or technical aspects of privatisation. The political dimensions of privatisation remain an untold story. An assessment of privatisation incorporating the role of politics and important actors such as the industrial elite, bureaucrats, trade unions and foreign aid donors is long overdue.

Privatisation has been described as a panacea by its proponents, a solution to the deficiencies of the public enterprise regime-which were caused by political interference and manipulation. The crucial stated goal of privatisation policy was to liberate an important section of the economy from politics. This study demonstrates that such a liberation failed to occur in Bangladesh. Not only has privatisation been shaped by politics, it has also shaped the politics of Bangladesh to a considerable degree. The privatisation programme has been deliberately designed and executed to reward and promote the interests of key groups which developed into the main support base of three successive regimes. These groups, which have come to resemble something very like a class, were in substantial measure the creation of the privatisation process. In fact, within any given country, privatisation always evolves and operates within its distinctive political logic and environment. In Bangladesh, this environment is dominated by five important sets of actors: politicians, business interests, bureaucrats, organised workers, and foreign aid donors. This study provides explanations as to why and how the economic goals of privatisation tend to become secondary to extra-economic factors by examining the interplay of politics and these related actors. The study argues that privatisation was undertaken more to serve the needs of the ruling politicians for political gain than to address market or government failures, or to conform to ideological predilections. This study examines the important roles that extra-

economic factors have played in the emergence of privatisation as a policy choice, and in the subsequent management of the privatisation process in Bangladesh. It makes an attempt to determine the nature of politics-business relations and examines its impact on the privatisation policy process. This study also evaluates the role of bureaucrats and organised labour unions and foreign aid donors in the privatisation process.

This book is based on my doctoral dissertation submitted to University of London, United Kingdom in 1999. For publication I had to edit my thesis which, in fact, meant down sizing the thesis to a considerable degree. In carrying out this study I owe thanks to a number of persons and institutions who have contributed to the research and writing of this manuscript. First of all, I wish to express my deepest gratitude to my supervisor Professor James Manor as without his intellectual support, constant encouragement and academic co-operation this study would not have been possible. It is Professor James Manor who has introduced me to the difficult realm of social science research.

I wish to express my gratitude to Professor Lutful Hoq Choudhury, Professor M. Asaduzzaman, Professor Salahuddin Aminuzzaman and Professor Aka Firowz Ahmad for their valuable suggestions during my fieldwork in Bangladesh. I am particularly indebted to Professor M. Asaduzzaman- who has been my all time mentor, a true friend-philosopher-guide, for teaching me public administration as well as the importance of being a good human being.

Besides, my student Shamsul Alam Monir, lecturer, Stamford University Bangladesh, deserves a special “thank you” as he helped me out in the entire process of publication of this book.

I am truly grateful to all my brothers and sisters and brother-in-laws who provided me with all kinds of support throughout my life in the absence of my parents. I gratefully recall the support of my elder brothers—Mohammed Junaid, Mohammed Muhaddes and Mohammed Mufakker throughout my student life. My elder brothers and sisters always loved me like their own son. I am especially indebted to Mohammed Mufakker who provided me with overall guidance during my childhood- without which my present life would have been very different. Besides, love and support which I received from all my sister-in-laws deserve a special mention. Particularly, Rezina Muhaddes has always been extra-ordinarily kind to me and I gratefully recall the sacrifices she made throughout my early student life for my happiness. I would like to say a “big thank you” to her.

I would like to take this opportunity to express my gratitude to my father-in-law Abdul Quddus and my mother-in-law Hasina Begum-whose love and care has always been boundless for me.

I express my heartfelt gratitude to Farah Hasin, my wife and Zayan and Zaim --our young sons. Farah was never tired in providing me with her suggestions which influenced my thoughts. She has been a constant source of my inspiration. My children always felt a rivalry with my computer, as this was what had kept their father away from them at times when they wanted to have some attention. Yet, neither Farah nor Zayan and Zaim ever complained. My gratitude is matched only by my feelings for them.

Finally, I am grateful to the Commonwealth Scholarship Commission for funding the scholarship, which enabled me to carry out this study in the United Kingdom.

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Abbreviations

ADB	Asian Development Bank
ADP	Annual Development Plan
AL	Awami League
BADC	Bangladesh Agricultural Development Corporation
BCIC	Bangladesh Chemical Industries Corporation
BD	Bangladesh
BIDS	Bangladesh Institute of Development Studies
BEA	Bangladesh Employers Association
BJC	Bangladesh Jute Corporation
BJMC	Bangladesh Jute Mills Corporation
BNP	Bangladesh Nationalist Party
BOI	Board of Investment
BRTC	Bangladesh Road Transport Corporation
BSB	Bangladesh Shilpa Bank
BSRS	Bangladesh Shilpa Rin Shangstha
BSS	Bangladesh Shangbad Shangstha
BSEC	Bangladesh Still and Engineering Corporation
BSFIC	Bangladesh Sugar and Food Industries Corporation
BTMC	Bangladesh Textile Mill Corporation
CA	Chartered Accountant
CBA	Collective Bargaining Agent
CCEA	Cabinet Committee on Economic Affairs
CIDA	Canadian International Development Agency
CMLA	Chief Martial Law Administrator
DCCI	Dhaka Chamber of Commerce and Industries
DFI	Development Finance Institution
ERD	External Resource Division
ESOP	Employee Stock Option Plan
FBCCI	Federation of Bangladesh Chamber of Commerce and Industries

GDP	Gross Domestic Product
GHSS	Golden Handshake Scheme
ICOP	Inter-Ministerial Committee on Privatisation
IP	Industrial Policy
ILO	International Labour Organisation
IMF	International Monetary Fund
JP	Jatiya Party
JSAC	Jute Sector Adjustment Credit
MCCI	Metropolitan Chamber of Commerce and Industries
MP	Member of Parliament
NCB	Nationalised Commercial Bank
NILG	National Institute of Local Government
NIP	New Industrial Policy
NRP	National Reserve Price
PAES	Public Administration Efficiency Study
PFP	Policy Framework Paper
RIP	Revised Industrial Policy
SDR	Special Drawing Right
SKOP	Sramik Karmachari Oikkya Parishad
SOE	State Owned Enterprise
TCB	Trading Corporation of Bangladesh
UNDP	United Nation Development Programme
UNCTAD	United Nation Centre on Trade and Development
WB	World Bank

Glossary

SKOP United Front of Workers and Employees

BSB Bank for Industrial Development

BSRS Bangladesh Industrial Credit Corporation

TK. Currency of Bangladesh

Hartal Work Stoppage

Currency Conversion Rate £1 = Tk. 65 (appx.)

Chapter One

Introduction

Privatisation: Theoretical and Comparative Perspectives

The expansion of the public sector in both size and scope has been a feature of post-second World War economic development, most markedly in Europe although, during the 1960s and 1970s, this sector also dominated economic activity in developing countries.¹ In the advanced industrial capitalist economies of Europe and, to a lesser extent, in North America, the growth of the public sector has been largely associated with the growth of the welfare state, especially under pressure from and the influence of social democratic movements and Keynesian ideas.²

In the Third World, however, the public sector has developed most under so-called "intermediate regimes"- often established by populist national movements, for example, Nehru's India, Nkrumah's Ghana, Sukarno's Indonesia. There were also countries with the statist capitalist governments who used state intervention to achieve rapid economic growth in favour of the ruling interests, for example, Suharto's Indonesia, Marcos's Philippines and so on. A variety of factors contributed to the growth, nature and role of the public sector in these different contexts, but there were also important similarities. Considerations of social welfare, political legitimacy and patronage have often been very influential in their development.³

After three decades of state interventions the world has seen a marked reversal in the 1980s and 1990s. Instead of government control and centralised planning there has been a renewed emphasis on market-oriented strategies. Privatisation constitutes one of the cornerstones. The campaign for privatisation internationally dates back to the early 1980s, after the election of Margaret Thatcher in Britain in 1979 and Ronald Reagan in the United States in 1980. The accompanying swing to conservative, market-oriented economic thinking in the West entailed the promotion of privatisation by powerful international agencies, such as

¹ For details see Shair, J.A.R. O., *Privatization and Development*, Macmillan Press Ltd., London, U.K., 1997, p.1.

² See Jomo, K. S., "Introduction" in Jomo, K. S., (ed.) *Privatizing Malaysia-Rents, Rhetoric, Realities*, Westview Press, U.S.A., 1995, p. 1.

³ See Jomo, K. S., *Ibid.* p. 3.

the World Bank, IMF and the Asian Development Bank, usually as a part of larger structural adjustment packages favouring private business interests.

Since then, there has been an accelerating pace of privatisation in much of the world, reversing the variously inspired- Keynesian, social democratic, nationalist and socialist- expansions of the public sector in the post-war period. While the rise of Thatcherism and Reaganism in the context of stagflation, fiscal crisis and government failure have inspired and encourage privatisation and related initiatives in the developed industrial economies of the West, a number of economic and extra-economic factors have been more influential in the Third World economies and in the former socialist economies.⁴ As observed by Shair, the responses to economic crisis are shaped by a range of internal and external pressures, but they are also strongly influenced by the attitudes and desires of the economic advisors and political leaders of a given country.⁵

Ramamurti in a comprehensive study on 83 developing countries in 1992, tested four hypotheses regarding the reasons for privatisation. Within this sample there were 34 non-privatisers, 21 cautious privatisers, and 28 actively privatising countries. The hypotheses examined were that privatisation occurs in countries characterised by i). higher fiscal pressure on governments (high budgetary deficit, large domestic public debt, and large external debt); ii). higher dependency on loans from the World Bank and IMF; iii). a large share of public enterprises in total investment; and iv). lower long-term growth.

The empirical test of these hypotheses revealed that there was an apparent correlation between privatisation and dependency on loans from international organisations. That is to say, the greater a country's dependence on loans from the World Bank and IMF, the greater the probability of its being an active privatiser. The researcher pointed out that in Latin American and Asian countries, the increasing trend towards privatisation is related either to their past "overuse" of public enterprises or their faster-growing private sector. Whereas in Africa privatisation has been imposed by external factors, particularly the pressure exerted by the World Bank and IMF, even though the conditions for privatisation were not necessarily appropriate.⁶

⁴ Ibid., p. 2.

⁵ See for details Shair, J. A. R. O., op. cit, p. 86.

⁶ See Ramamurti, R., "Why are Developing Countries Privatizing", *Journal of International Business Studies*, No. 23, 1992, pp. 225-249.

In Bangladesh, however, various internal political and economic factors contributed to the emergence and subsequent pursuance of a privatisation policy. In contrast to many other cases, privatisation in the first instance was locally conceived and donors' policy input into the process became important at a later stage. Bangladesh had a large nationalised sector. In 1972, the government nationalised all industrial units in jute, textile, sugar as well as banks, insurance companies, inland water transport and large sectors of trade with assets above Tk. 1.5 million.⁷

Although the state owned enterprises were created to function on commercial lines and earn an acceptable rate of return on the government's investments, in most cases public industrial enterprises were producing significant losses. The government incurred a cumulative loss of Tk. 420 billion (approximately US \$ 10 billion) bailing out the state-owned enterprises since the wholesale nationalisation of industries in 1972. The operational losses of Bangladesh Jute Mills Corporation (BJMC) continuously increased over the years. Bangladesh Textile Mills Corporation (BTMC) had made profits for a few years but ultimately failed to sustain the trend.⁸

It is to be noted that for the jute industry the export market was drying up with the passage of time which undermined the overall financial position of the sector. On the other hand, the textile industry was designed to serve the domestic market only, and during the post-liberation period the sector had faced no competition from outside as far as market share was concerned. This particular situation contributed to the profits of the sector for the initial few years. However, the sector lost its competitiveness due to growing mass scale corruption, smuggling of clothes and yarn, and competition with the imported fabrics with the opening up of the economy.⁹

As stated in the First Five-Year Plan, the performance of the nationalised industries on the whole was poor in terms of generating surpluses and contributing to resources for development.¹⁰ Apart from the disruptions in production because of the physical damage caused by war, inadequate supply of power, transport bottlenecks and lack of

⁷ For details on this see Ahmad, M., *State and Development- Essays on Public Enterprise*, Dhaka, University Press Ltd., 1987. See also Sobhan, R., and Ahmad, M., *Public Enterprise in an Intermediate Regime- A study in the Political Economy of Bangladesh*, Dhaka, Bangladesh Institute of Development Studies (BIDS), 1980, p. 152.

⁸ See Bangladesh Economic Survey, Government of Bangladesh, 1982.

⁹ See *The Holiday*, Dhaka, a national weekly newspaper, October 11, 1985.

¹⁰ See *The First Five Year Plan (1973-78)*, Planning Commission, Government of Bangladesh, 1974. p. 39

managerial ability, there were other factors which also contributed to their poor financial performance. Most prominent amongst these factors were deficiencies which resulted from the political turmoil, tensions and contradictions within the ruling party, widespread misappropriation of industrial assets and products by the administrators, managers, trade union leaders and workers having close ties with the ruling party.¹¹

According to a World Bank estimate, at present the average annual SOEs losses amount to approximately US\$ 500 million which represent about 45% of the country's annual project aid disbursement and 2% of Bangladesh's GDP.¹² The financial crisis of the SOEs exerts tremendous pressure on the country's exchequer either directly as capital infusions or indirectly as write-offs or subsidies to the banking system for SOE bad debts.¹³ Another World Bank estimate pointed out that during 1972-94, a total of Tk. 29 billion was advanced to the jute sector alone either in the form of subsidy or loss financing.¹⁴ The jute and textile sectors for their poor financial conditions tended to burden the public exchequer enormously over the years.

Table 1: Privatisation of Public Industrial Enterprises¹⁵ - 1972-95

	AL 1972-75	BNP 1975-82	JP 1982-90	BNP 1991-95	Grand Total
Jute Mills Transferred to Bangladeshi owners	0	2	33	0	35
Textiles Mills Transferred to Bangladeshi owners	0	2	27	1	30
Other Categories of Industrial Units	145	251	126	12	527*
Total	145	255	186	13	592

Note: *Compared to the jute and textile mills transferred to the private sector, many of these units were small in terms of size, volume of investment and manpower. Source: Privatization Board, Government of Bangladesh, 1997.

¹¹ See Islam, N., *Development Planning in Bangladesh*, Dhaka, University Press Ltd., 1979. p. 242.

¹² See The World Bank, *Bangladesh- Privatization and Adjustment*, The World Bank, Report No. 12318 BD, March, 1994. p. i

¹² See The World Bank, *Privatization Experience in Bangladesh, 1991-96*, Vol. 1, Dhaka, 1997, p. X.

¹³ See The World Bank, *Privatization Experience in Bangladesh, 1991-96*, Vol. 1, Dhaka, 1997, p. X.

¹⁴ See The World Bank, Report No. 12318 BD, op. cit., p. ii

¹⁵ Successive Bangladeshi regimes also privatised a large number of non-industrial public enterprises. We could not obtain the accurate total figure of such enterprises, however, according to a senior civil servant based at the Ministry of Industries, the figure would be approximately 500, including small, medium and large scale enterprises.

It is important to note that poor productivity and financial performance of the public sector as a whole provided the successive regimes with justifiable economic grounds for privatisation over the years. Quite interestingly, however, the government started a privatisation process on a limited scale as early as in 1972, even while pursuing a nationalisation policy. The privatisation programme was subsequently intensified by successive regimes. For twenty years after the political changeover in mid-1975, we experienced a massive programme of privatisation of public industrial enterprises in Bangladesh. Considering the number of units privatised, Elliot Berg called Bangladesh the “champion of privatization” and a “great privatizer”.¹⁶ Table 1 demonstrates the extent of privatisation in Bangladesh;

At present, nearly 65% of the industrial economy is in the private hands.¹⁷ Jute and textile sub-sectors constitute about 60% of the country's total manufacturing capacity.¹⁸ After privatisation, about 70% of the total jute and textile ownership is in the private sector.¹⁹ What is important to note here is that the private sector's performance has been as dismal as was the performance of the public sector in Bangladesh.

Most strikingly, the Board of Investment of the Ministry of Industries conducted a survey in 1992 to determine the extent of the current activities of the privatised enterprises. The study showed that out of 488 industrial enterprises of various industrial sub-sectors surveyed, only 214 were found to be still in operation; 133 enterprises had closed down; and there was no trace of 141 enterprises.²⁰ Numerous economic explanations have been offered for this, such as the lack of an enabling environment, market distortions, low labour productivity, lack of infrastructure facilities, a limited domestic market, international competition, an unprotected market, an uncertain investment climate, etc.²¹ These factors were certainly impediments to the private sector's performance. But this study demonstrates that more

¹⁶ See Berg, E., and Shirley, M. M., *Divestiture in Developing Countries*, The World Bank, Washington, Discussion Paper No. 11, 1987.

¹⁷ See Bangladesh Economic Review 1996, Ministry of Finance, Government of Bangladesh.

¹⁸ This information is derived from the Ministry of Industries, Government of Bangladesh, 1997.

¹⁹ See Privatization in Bangladesh, Privatization Board, Government of Bangladesh, 1997.

²⁰ See Privatised Enterprises in Bangladesh, Board of Investment, Government of Bangladesh, 1992.

²¹ See Privatization in Bangladesh, Privatization Board, Government of Bangladesh, 1997.

important was the nature of political management of privatisation under successive regimes, the political motivations behind the privatisation policy process, and the manner in which the enterprises have been privatised, and the types of private individuals to whom they were privatised.

Poor performance of the privatised enterprises raises a few questions. If privatisation has not led to improved efficiency or performance, why did the successive regimes initiate and pursue a privatisation policy? How were policies implemented? Have successive regimes been guided by economic pragmatism? Was privatisation policy influenced by the world-wide fashion for policy reversal? How important were the political variables relative to economic imperatives?

This study seeks to address these issues on the basis of empirical evidence. We argue that shifts in policy have been shaped by economic factors and more importantly by the changing balance of political and social forces, and partially owing to external pressures from the foreign donor community. The study shows how successive regimes politically managed the privatisation process during 1975-95. It also examines the role of political factors and actors, and the political dynamics which ultimately determined the pace of privatisation.

The two military regimes- which captured state power in 1975 and in 1982 consolidated their power by building political parties while in power and sought to legitimise their rule. In doing so, they used privatisation policy as a political vehicle to distribute patronage among the politically important groups whose support they sought to retain office. The military government which initiated the reversal of state policy after the political changeover in August 1975 used as its justification the weak performance of the public sector as between 1972 and 1975. Strikingly, although their major emphasis was on privatisation and private sector development, no government ever made any attempt to stop the public sector operation completely. Rather, they wanted some kind of balance which was a politically effective strategy whereby it was easy for them to satisfy all the contending groups having conflicting interests.²² Between 1991 and 1995, Bangladesh had a democratically elected government. Privatisation was the major economic agenda item of that regime. The presence and dominance of businessmen, industrialists,

²² For details see Sobhan, R., *Bangladesh: Problems....op.cit.*, pp. 158-159.

traders and contractors in parliament gave privatisation a stronger voice and greater momentum.²³ The regime, like its predecessors, also used privatisation to its own political advantage.

As will be seen in the subsequent chapters, all the three regimes under consideration (1975-95) had backing from the powerful industrial elite with regard to privatisation. What is, however, significant is that they also faced opposition from organised labour unions, a section of bureaucrats and opposition politicians while implementing privatisation. Therefore, they moved very cautiously and carefully, constantly weighing the political costs and benefits.

It is important to note that successive regimes responded to the demands of a group on the basis of their calculations of relative political importance of that group to the regime at a particular point of time. Therefore, the course of privatisation in Bangladesh was a complex one. Sometimes privatisation was excessively fast, sometimes unexpectedly slow, and at other times surviving only as rhetoric in policy action plans of the governments. It can be argued that privatisation and private sector development crusade of successive regimes was fought out more on political grounds than on rational economic grounds. The tactical political considerations overrode the economic pragmatism throughout the period under consideration. It is to be noted that politics also played the most important role even in the initial nationalisation policy process in Bangladesh. Nationalisation policy was used by ruling politicians to distribute patronage among the party cronies.²⁴

It is often argued in the context of Bangladesh that unlimited political manoeuvring has directly contributed to public sector's chronic inefficiencies, huge financial losses and rampant corruption over the years.²⁵ Scholars in the 1970s and 1980s utilised concepts such as the rent-seeking society and predatory state to explain why states adopted and then persisted in pursuing policies that increased distortions in the economy, exacerbating inefficiency, stagnation, and inequality.²⁶

²³ See for details Maniruzzaman, T., "The Fall of the Military Dictator: 1991 Elections and the Prospects of Civilian Rule in Bangladesh," *Pacific Affairs*, Vol. 65, No. 2., 1992.

²⁴ See Sobhan, R., and Ahmad, M., *Public Enterprise in an Intermediate.....op. cit.*

²⁵ See Yusuf, F. H., *Nationalisation of Industries in Bangladesh*, Dhaka, National Institute of Local Government (NILG), 1985. See also Sobhan, R., and Ahmad, M., *Public Enterprise in an Intermediate.....op. cit.*

²⁶ See Conybeare, J. A. C., "The Rent-Seeking State and Revenue Diversification," *World Politics*, Vol. 35, No. 1, pp. 25-42. and Bhagwati, J. N., "Directly Unproductive, Profit-Seeking Activities." *Journal of Political Economy*, Vol. 90, No. 51, 1982. and see also for details Krueger, A. O., "The Political Economy of

By contrast, liberalisation, less government intervention and privatisation were considered to be panaceas by the proponents of neo-liberalism. They gave particular emphasis to privatisation as a means to achieve improved performance of the erstwhile public sector in terms of profits, efficiency, employment generation, and 'good government'. The crucial stated goal of privatisation policy was, therefore, to liberate economic factors from politics to remove the deficiencies of the public sector caused by politics and political manoeuvring.²⁷

The study demonstrates that such a liberation failed to occur in Bangladesh. We argue that privatisation was and is as intensely a political process as was the policy of nationalisation in Bangladesh. The study demonstrates that the policy alternative of privatisation provides the same kind of political advantages for ruling politicians that are perceived to be endemic in public enterprises. In the name of privatisation and private sector development, public enterprises were deliberately under-priced to reward groups which extended support to the ruling politicians. Privatisation in Bangladesh, like many other countries of the world, created more avenues for the ruling politicians to distribute patronage among the friends and supporters.

On the basis of the British experience, Hood indicated that privatised enterprises offered more lucrative possibilities than public enterprises for "in between" or "post-politics jobs" for the politicians. He pointed out that a fire sale of public assets below market value offered potential campaign contributions to marginal voters.²⁸ Cook and Minogue made a similar observation and noted that "privatisation can be used as a means of gaining election campaign funds and buying votes indirectly".²⁹ Bienen and Waterbury noted that "...in France and the United Kingdom privatization offers an opportunity to build "popular capitalism and middle class electoral support".³⁰ Fontaine argued that in some countries of tropical Africa public enterprises were privatised merely to serve interests of the intimates of the countries top executives for

the Rent-Seeking Society." *American Economic Review*, Vol. 64, No. 3, 1974, and also Lal, D., *The Political Economy of Predatory State*, Development Research Department, Discussion Paper DRD 105, The World Bank, 1984, Washington, U.S.A.

²⁷ See *Industrial Policy of 1982, 1986, 1991*, Dhaka, Government of Bangladesh.

²⁸ See Hood, C., *Explaining Economic Policy Reversals*, Buckingham, Open University Press, 1994.

²⁹ See Cook, P., and Minogue, M., "Waiting for Privatisation in Developing Countries: Towards the Integration of Economic and Non-economic Explanations", *Public Administration and Development*, Vol. 4, No. 10, 1990, pp. 389-403.

³⁰ See Bienen, H., and John Waterbury, "The Political Economy of Privatization in Developing Countries", *World Development*, Vol. 17, No. 5, 1989, pp. 617-632.

reaping political advantages.³¹ Roberts showed that in Algeria the re-orientation of economic policy was a reflection of internal political imperatives. He revealed that privatisation has been a response to specific internal and primarily political considerations rather than to external forces.³²

In the African and Latin American contexts Dearlove and White argued that the institutionalised dominance of state interests and patron-client relations between state organisations and specific social interests shaped the pace of privatisation in general and economic reforms in particular.³³ In the Indian context, Harriss found that government's economic liberalisation programme had been an inconsistent affair during 1980s, and this was due mainly to specific nature of domestic politics and the ruling party's political calculations.³⁴ While explaining the Indian case, Harriss concluded that both the 'new economic policy' promised in 1985 and the rapid retreat from it in practice, should be seen as outcomes of the compromised nature of class power and the weakness of the state as an organisation.³⁵

Manor also explained why and how politics determined the path of economic liberalisation in India during the 1980s. He observed that "the 'rationality' of the market in the industrial sector was to be reinforced by the 'rationality' of modern management in the party and state".³⁶ More recently Arun studied the Indian and Pakistan's experiences with privatisation in the early 1990s and came up with similar findings. He suggests that privatisation required accommodation of various interests in both the countries, and the governments had to be responsive to "reform coalition" on the one hand and while tactically managed the anti-reform interests in and

³¹ See Fontaine, J. M., "Evolving Economic Policies and Disinvolving States: Notes in an African Context", *IDS Bulletin*, 1987, Vol.18, No. 4, pp. 17-21.

³² See Roberts, H., "The Algerian Constitution and the Restructuring of State-capitalism", *IDS Bulletin*, 1987, Vol.18, No. 4.

³³ It was also argued that no significant change was possible without a serious effort to dismember these networks of power and interests. See Dearlove, J., and White, G., "Editorial Introduction", *IDS Bulletin*, 1987, Vol. 18, No. 3, p.1.

³⁴ For details see Harriss, J., "The State in Retreat? Why Has India Experienced Such Half-hearted 'Liberalisation' in the 1980s?", *IDS Bulletin*, 1987, Vol. 18, No. 4, pp. 31-38.

³⁵ See Harriss, J., *Ibid.* pp. 31-38.

³⁶ Manor provides an extra-ordinary account of liberalisation effort in India with a political perspective. He has explained the reactions of different interests within Indian polity to liberalisation. See Manor, J., "Tried, then Abandoned: Economic Liberalisation in India." *IDS Bulletin*, 1987, Vol. 18, No. 4., pp. 39-44.

outside their respective parties on the other.³⁷

It is obvious that public enterprises create opportunities for patronage and rent-seeking which constrain their economic efficiency. But what is at issue is that privatisation can also give considerable political advantages to the ruling politicians and other important groups. This study demonstrates empirically why and how privatisation was used by ruling politicians as a vehicle towards achieving political ends between 1975 and 1995 and how this eventually prevented privatisation from producing expected economic benefits. The study responds to Robert Bates' challenging question, "Why should reasonable men adopt public policies that have harmful consequences for the societies they govern?"³⁸

Let us now consider different definitions of the concept of privatisation. It generally implies a move towards divestment of total ownership from government to the private sector. But as a concept it offers a wide range of possibilities... from outright change in the ownership and control at one end of the spectrum to the introduction of market discipline within the context of deregulation and liberalisation at the other. To Savas, privatisation means increased reliance on the non-governmental sector and market forces to pursue social goals, represents a conscious effort to shrink the government by "rolling back the boundaries of the state", and involves the increased reliance on private actors and market forces to pursue social goals.³⁹

Butler defines privatisation as the "shifting of a function, either in whole or in part, from the public sector to the private sector."⁴⁰ Many scholars, especially those examining privatisation in Europe, limit the concept to sales of nationalised enterprises.⁴¹ Whereas Yarrow sees privatisation as the transfer from the public to the private sector of

³⁷ See for example, Arun, T.G., British Association of South Asian Studies. *BAAS Bulletin*, Vol., 2, no. 6, May 1998.

³⁸ See Bates, Robert., *Markets and States in Tropical Africa*, University of California Press, Berkeley, U.S.A, 1981, p. 3.

³⁹ See Savas, E. S., *Privatising the Public Sector: How to Shrink Government*, Chatham House, USA, 1982.

⁴⁰ See Butler, S., "Privatization for Public Purposes", in Gromley, T.W., "The Privatization Controversy" in Gromley (ed.) *Privatization and its Alternatives*, The University of Wisconsin Press, USA, 1991, p. 17.

⁴¹ See for example, Nelson, P., *Privatization, Methods and Madness*, Nelson International (Tanzania Ltd.), Tanzania, 1996, p. 8., Vernon, R., "Introduction: The Promise and the Challenge" in Vernon, R (ed.), *The Promise of Privatization: A Challenge for U.S. Policy*, Council on Foreign Relations, New York, U.S.A., 1988, p. 1.

entitlements to residual profits from operating an enterprise, coupled with any accompanying changes in regulatory policy.⁴² For Prager, privatisation can mean a diversity of things: (i) the partial sale of assets, which does not imply attenuation of state control; (ii) change in ownership and control; (iii) private ownership without any constraints on entry into the industry; (iv) changes only in patterns of control rather than ownership (leasing public enterprises); and (v) both ownership and key decision making remaining with the state while production, in contrast with service provision, lies in private hands (management contracting).⁴³

On the other hand, theoreticians like Bos interpret privatisation as the sale of public sector assets and exclude issues such as contracting out, de-bureaucratisation and promotion of competition by market forces.⁴⁴ Others, like Boycko, Shleifer and Vishny see privatisation as “combination of the reallocation of control rights over employment from politicians to managers and the increase in cash flow ownership of managers and private investors.”⁴⁵ There is also a group of scholars who locate the idea in a broader set of policies which emphasise a return to concepts associated with economic liberalisation.⁴⁶ It is important to note that the impact and implementation of liberalisation and privatisation are quite different. Several scholars, therefore, define privatisation as the transfer of ownership and control from the public to private sector, with particular reference to asset sales.⁴⁷ Others see privatisation as the goal of

⁴² See Yarrow, G., "Privatisation in Theory and Practice" in Yarrow, G., and Jasinski, P., (eds.) *Privatization- Critical Perspectives on the World Economy*, Vol. 1, Routledge, U.S.A., 1996, p. 5.

⁴³ See for details, Prager, J., "Is Privatization a Panacea for LDCs? Market Failure Versus Public Sector Failure", *The Journal of Developing Areas*, No. 126, 1992, pp. 301-322.

⁴⁴ See Bos, D., *Privatization: A Theoretical Treatment*, Clarendon Press, Oxford, 1991.

⁴⁵ See for details Boycko, M., Shleifer, A., and Vishny, R. W., "A Theory of Privatization", *The Economic Journal*, No. 106, 1996, pp. 48-83.

⁴⁶ See for example, Suleiman, E. N. and Waterbury, J., (eds.) *The Political Economy of Public Sector Reform and Privatization*, Westview Press, Boulder, U.S.A. 1990., Kamerman, S.B. and Kahn, J. A., (eds.) *Privatization and the Welfare State*, Princeton University Press, U.S.A., 1989., See also Starr, P., "The Meaning of Privatization" in Kamerman and Kahn and Swann, D., (eds.), *The Retreat of the State: Deregulation and Privatization in the U.K. and U.S.*, University of Michigan Press, U.S.A., 1988.

⁴⁷ See Hemming, R., and Mansoor, A., "Is Privatization the Answer", *Finance and Development*, No. 25, 1988, pp. 31-33., See also De Walle, N.V., "Privatization in Developing Countries: A Review of the Issues", *World*

state-owned enterprise reform and use the concept of reforming public enterprises as a synonym for privatisation.⁴⁸

Now let us consider the various strategies of privatisation. In fact, strategy of privatisation tend to vary from country to country. To the economists in general a particular selection of a privatisation strategy depends on the condition of the economy and strength of the private sector. The specific goal in this case is to build up a dynamic, varied, and broader economic base.⁴⁹ On the contrary, to the student of politics, the choice of a particular privatisation strategy is, in first place, a political weapon, and we argue that the decision is, therefore, contingent upon the political imperatives of the ruling politicians in charge of an administration. Politics plays the most important role in deciding whether or not to privatise and most crucially when and how to privatise. There are a number of privatisation strategies and each of the strategy has a political ramification. Nature of politics of a country can well explain why a country follows a particular strategy.⁵⁰ Political scientists have identified three broad but distinct types of privatisation, namely, pragmatic, tactical and systemic privatisation. All the strategies defined by economics actually fall within these broad categories. We analyse the characteristics of these strategies in detail later, first, we discuss the economic perspectives of privatisation strategies.

Ramanadham identifies three types of privatisation strategies. The first concerns the ownership and includes total denationalisation, joint venture and liquidation. The second relates organisational changes to holding company structures and changes within the monolithic structures such as leasing competition and restructuring. The third and final group of measures is operational and comprises contracting out, incentive rewards, investment criteria, pricing principle, resorting to capital market and rationalisation of government control.⁵¹ A thorough review of the

Development, No. 17, 1989, pp. 601-615., Rees, R., "Is There an Economic Case for Privatization?", *Public Money*, No. 6, 1986, pp. 19-26.

⁴⁸ See for example Galal, A., *Public Enterprises Reform: Lessons from the Past and Issues for the Future*, The World Bank, Washington D. C., World Discussion Paper No. 19., see also Shirley, M. M., and Nellis, J., *Public Enterprise Reform: Lessons of Experience*, The World Bank, Washington D. C., 1991.

⁴⁹ See Humphrey, C. E., *Privatization in Bangladesh-Economic Transition in a Poor Country*, Dhaka, University Press Ltd., 1992. For a similar view see also Pirie, M., *Privatization*, Wildwood House, London, U.K., 1988.

⁵⁰ See Dinavo, J. V., *Privatization in Developing Countries- Its Impact on Economic Development and Democracy*, Praeger, Connecticut, U.S.A., 1995. p.16

⁵¹ See Ramanadham, V.V., "Privatization: The U.K. Experience and Developing Countries", in Ramanadham, V.V. (eds.), *Privatization in Developing Countries*, Routledge, London, 1989, pp. 3-61.

contemporary literature on the subject helps identifying the following most commonly used forms of privatisation in the developed and developing countries.

a. Sales of Assets or Equity (Divestiture)

Divestiture is the total or partial sale of public sector assets to the private sector.⁵² Divestiture involves an actual change of ownership from public to private. Selling shares can be a better strategy to adopt for the developed countries where capital market is developed and people have buying power. For instance, Margaret Thatcher carried out this form of privatisation in Britain under which equities of British Aerospace, British National Oil, Jaguar, Amersham were sold.⁵³ However, the sale of equity in whole or in part, is a very tedious task and a very sensitive issue in the developing countries where capital markets either are non-existent or underdeveloped. Within the developing world Bangladesh, Chile, Zaire, Algeria, Brazil and Argentina have mainly privatised through both total and partial divestitures. The political ramifications of this particular form with reference to Bangladesh will be presented later.

b. Denationalisation

This form involves the return of nationalised enterprises to their original owner or shareholders. For instance, In Bangladesh, a number of public enterprises were returned to the original owners during 1975-95. This particular form often leads to severe economic and political tensions within the economy.

c. Liberalisation or Deregulation

This form removes some or all restrictions on entering a particular market in order to increase competition, hence giving more choices to the consumer. This particular form has been adopted by many developed and developing countries. However, in many developing countries, in practice government officials refuse to liberalise the economy fully, because this helps them, their friends, relatives and business associates to maintain their monopoly on these businesses. The cases of Bangladesh, Zaire, Mozambique, Tanzania, Kenya, Zambia, Peru, Indonesia, Benin, Angola constitute the good examples of this.

⁵² See Kent, C. A., "Privatisation of Public Functions", in Kent, C. A. (ed.) Entrepreneurship and the Privatisation of Government, Quorum Books, New York, USA, 1987, p. 9.

⁵³ See Dinavo, J. V., *op.cit.*, p. 8

d. Contracting Out

This is considered to be the simplest form of privatisation and is thus widely used. Under it, the private sector is involved in the provision of certain goods and services, but the government remains in charge of all major activities. This is the principal form of privatisation in the United States. The advantage of this form of privatisation is that it allows entrepreneurs to compete in the market place. Contracting out creates jobs in the private sector. The disadvantage is that in developing countries, government officials and ruling politicians often tend to give the contracts to their business associates, friends and relatives. Examples can be found in Malaysia, Indonesia, Kenya, Zaire, Peru, Chile and Cote d'Ivoire.⁵⁴

e. Voucher Privatisation

This form of privatisation is not commonly used in the developing countries. It has been used mainly by Russia and other East European countries. A voucher is just a way of transferring income to a citizen in order to increase that individual's ability to purchase a good or service. In other words, the consumer is authorised to purchase earmarked goods or services from the private market. Food stamp programmes are the leading example of voucher privatisation. In this case, the government determines the providers and the user of the services.⁵⁵ Since the government determines who is eligible to purchase the services and who is eligible to provide them, the opportunities for government officials and ruling politicians to choose their friends and relatives are enormous.

f. Subsidies

Subsidies are designed to provide profit opportunities to private enterprises by cutting the cost of some of their production inputs--those the governmental sector would like to see being used. The major drawback of this form of privatisation is that it drains scarce government funds adding to budget deficits. This form may invoke corruption in the form of bribery between the ruling politicians and private entrepreneurs. Countries such as Malaysia, Indonesia, Thailand, Pakistan, Sri Lanka, Argentina, Chile, Brazil, Ghana, Kenya used this strategy. Bangladesh also used this strategy on a limited scale during both Zia and Ershad era.

⁵⁴ See Dinavo, J. V., op.cit., p. 7

⁵⁵ See Gromley, T.W., "The Privatization Controversy" in Gromely (ed.) *Privatization and its Alternatives*, The University of Wisconsin Press, USA, 1991, p. 11.

g. User Fees

Under this form, the government is still the provider of services. User fees are the means by which the partial or full cost of the service is paid by the general public.⁵⁶ The major problem with private payment is that the public will wind up paying more for the service.⁵⁷ This strategy was never used in Bangladesh, while many developing countries such as Indonesia, Kenya, Zaire, Peru, Chile and Cote d'Ivoire, Ghana used this during 1980s and 1990s.

h. Load Shedding

Load-shedding involves the government abandoning some activity, which may or may not be picked up by the private sector, depending on the nature of the activity and the need in the community.⁵⁸ The main pitfall of this form of privatisation is that it increases the inequalities in income and wealth in a society. It widens the gap between the haves and the have-nots in general. This is a popular form of privatisation in many Latin American countries⁵⁹, but in Bangladesh this form was never used.

i. Management Privatisation

Under this arrangement, the private sector, with its expertise and know-how, is invited by the government to take over the management of a particular public enterprise. However, under the agreement the government still retains complete ownership of the concerned state-owned enterprise. This form of privatisation is a popular one in Malaysia. Many other developing countries have also tried this form of privatisation. Recently, the Bangladesh government has contracted out the management of a few services of Bangladesh Railways to the private sector. The disadvantage is that conflicts between the government and the private sector may produce negative consequences. Besides, the private sector may also pay too little heed to the quality of the goods and services.

While privatisation has different meanings and forms in the academic literature, in Bangladesh, it has mainly taken the form of disinvestment, denationalisation and liberalisation in terms of policy

⁵⁶ See Kent, C. A., "Privatisation of Public Functions", in Kent, C. A. (ed.) *Entrepreneurship and the Privatisation of Government*, Quorum Books, New York, USA, 1987, p.14.

⁵⁷ See Dinavo, J. V., op.cit., 1995. p. 9

⁵⁸ See Gromley, T.W. , op.cit., p. 5

⁵⁹ See for example, Brodtkin, Z.E., and Young, D., "Making Sense of Privatization: What Can We Learn from Economic and Political Analysis?", in Kamerman, S.B., and Kahn, J. A., (eds.) *Privatization and the Welfare State*, Princeton University Press, U.S.A., 1989. p. 122.

measures. Disinvestment generally means the sale of shares of a company with a view to the transfer of ownership. Denationalisation sees public property transferred to private ownership through open or negotiated sales. It entails the sale of shares to private buyers of a company initially set up in the public sector.

In the context of Bangladesh, however, disinvestment is used to designate the process whereby nationalised properties are divested, whereas denationalisation refers to return of enterprises nationalised after 1971 to their Bangladeshi owners. In the study we use the term “privatisation” instead of “disinvestment/denationalisation” unless directly quoting from a secondary source. It is to be noted here that in Bangladesh disinvestment has taken place in the form either of 100% transfer of ownership or partial transfer in the form of disposal of 49% of shares of ownership while majority (51%) shares remain with the government.

Liberalisation or deregulation is intended to remove the statutory restrictions that prevent the entry of private sector groups, liberalisation of tariffs and other policy measures. Ideally it aims to increase competition and to promote efficient markets. There has been some degree of liberalisation/deregulation in Bangladesh over the years.⁶⁰ However, these two issues as such are beyond the purview of our inquiry, because liberalisation/deregulation necessitates a change neither in ownership and control nor in the source of supply of goods and services. This study considers only the transfer of ownership either wholly or partially from the state to the private sector and focuses specifically on the political dimensions of this process. In this study, I take as my working definition of privatisation the sale of assets and services of the public sector to the private sector. We now discuss the conceptual framework of the politics of privatisation.

Politics of Privatisation: A Conceptual Framework

The economic case for privatisation is not new. Two centuries ago Adam Smith argued that;

In every great monarchy in Europe the sale of the crown lands would produce a very large sum of money, which, if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown... When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated.⁶¹

⁶⁰ See for details Chowdhury, J. A., *Privatization in Bangladesh*, Institute of Social Studies, The Hague, Netherlands, Working Paper No. 92, 1990. p. 10.

⁶¹ For details see Smith, A., *The Wealth of Nations*, 1776.

In spite of the influence of Adam Smith's idea, in practice and in spirit in the economic policies of most countries in the West, very little was heard about "rolling back the state" or "privatisation" prior to the 1980s.

The idea of reducing state involvement in industry and commerce is not new either.⁶² What is new is the drive to reverse the intervention of government in the economic life of many countries of the world. Privatisation became increasingly popular during 1980s. Since then, much has been written about the economics of privatisation. But very little attention has been paid to the politics or political dimensions of privatisation, in the context of both developed and developing countries. Much of the privatisation debate has focused on cost containment--the province of economics. But many other issues arise--issues that political scientists and sociologists can best address.⁶³ Henig and others argue that privatisation is better understood as a political strategy than as a purely economic adjustment or adaptation.⁶⁴

According to T.W. Gromely, an inquiry into privatisation should be multi-disciplinary in nature. Criticising the economic analysis of privatisation, Dobek suggests that the economic perspectives can not provide a full explanation of the dynamics of privatisation because such a programme is usually either politically motivated from its very beginning or becomes so once the programme is underway.⁶⁵ For instance, in Britain privatisation was, from the beginning, planned and executed as a political strategy of the ruling Conservative Party. This is not to say that there was a total absence of economic rationale behind the policy shift, but to suggest that the ruling party's prime concern was to achieve certain political goals. The redistribution of public property was used to build constituencies of support for the ruling politicians.⁶⁶ The table below shows how slowly the privatisation process was carried out in a number of African countries. Dinavo shows how the political considerations forced the economic objectives to downplay and eventually leading to tardy implementation of privatisation policy.⁶⁷

⁶² See Letwin, O., *Privatising The World- A Study of International Privatisation in Theory and Practice*, Cassell, London, U.K., 1988.

⁶³ See Gromley, T.W. , op.cit., p. 4.

⁶⁴ See Henig, J. R., Hamnett, C., Harvey, B. F., and Feigenbaum, B. H., "The Politics of Privatization: A Comparative Perspective", *Governance*, Vol. 1, No. 4, 1988, pp. 442-468.

⁶⁵ See Dobek, M. M., *The Political Logic of Privatization, Lessons from Great Britain and Poland*, Praeger Publishers, USA, 1993, p. 3.

⁶⁶ See for example, Wolfe, D. J., *Power and Privatization*, Macmillan Press Ltd. London, 1996. See also Henig, J. R., Hamnett, C., Harvey, B. F., and Feigenbaum, B. H., "The Politics", 1988, pp. 442-468

⁶⁷ For details see Dinavo, J.V., op.cit. p. 21

Table 2: Implementation of Privatisation in Some African Countries-1987-91

Country	Number of Public Enterprises	Number Declared to be Privatised	Number of Enterprises Privatised	Implementation rate as a % of the Total Declared Number
Burkina Faso	100	12	0	00
Cameroon	171	15	6	40%
Cote d'Ivoire	140	80	2	2.5%
Djibouti	9	4	2	50%
Guinea Bissau	44	9	2	22.2%
Morocco	800	112	7	6.25%
Senegal	-	36	26	72.2%

Source: Dinavo, J.V., Privatization in Developing Countries- Its Impact on Economic Development and Democracy, Praeger, U.S.A, 1995. p. 61.

According to Campos and Esfahani, the dominant political objective of any regime is to remain in power. As a result, politicians design and implement policies that fulfil this objective.⁶⁸ Unlike in Britain, privatisation in Poland was initiated by the government primarily as an economic exercise, but politics came to play an important role at a later stage and created stumbling blocks to the implementation of privatisation.⁶⁹ This also occurs in most of the developing countries as we have already seen in Table 2.

In Bangladesh, privatisation from its inception has been used by ruling politicians as a vehicle to distribute patronage among the rising business elite which was politically important to politicians. But it is also argued that the dismal performance of the public sector in general and its chronic losses and inefficiencies have led the successive governments to consider privatisation.⁷⁰ We, however, argue that while public enterprises in Bangladesh have faced major economic difficulties since the mid-seventies, a purely economic explanation of the policy shift towards privatisation is not convincing. This is true because economic analysis emphasises fiscal stress, inefficiency and uncompetitiveness, and interprets the privatisers as rational, economic maximisers. It is based on the dubious assumption that politicians administering privatisation

⁶⁸ See Campos J., and Esfahani, H., *Public Enterprise as Political Instruments*, The World Bank, Policy Research Department, Washington D.C., 1994. (mimeo).

⁶⁹ See for details Dobek, M. M., op.cit., p. 56.

⁷⁰ See The World Bank, *Privatization : The Lessons of Experience*, Country Economics Department, The World Bank, Washington, 1993. See also Humphrey, C. E., *Privatization in Bangladesh.... op.cit.*

behave as unselfish public servants, motivated to devise and pursue those policies that provide the greatest benefit to the public in general. Economic analysis perceives privatisation primarily as an economic operation motivated by the goal of economic welfare- promoting competition, increasing economic efficiency and government revenues.

We analyse the political constraints on the achievement of these ideal economic objectives. The Bangladesh experience suggests that even the most simplistic economic objective of increasing the government revenues from privatisation has mainly been political rhetoric. Our analysis shows that successive governments deliberately sacrificed revenue maximisation from privatisation to achieve political goals. Interestingly, privatisation persistently remained the major item in the government's economic agenda even when the privatised public enterprises were evidently performing poorly, and after the growth of cases of closures and even after 'no traces'⁷¹ of the enterprises privatised.

The major proposition of the study is that the political context has directly and powerfully shaped the evolution of privatisation in Bangladesh. Politics in this context can be perceived as “a structure of complex exchange among individuals, a structure within which persons seek to secure collectively their own privately defined objectives that can not be efficiently secured through simple market exchanges.”⁷² Privatisation was thus used as a vehicle to achieve political goals. Successive regimes in Bangladesh, in their bid to retain office, carefully weighed the balance of the political strengths and weaknesses of various actors and interest groups, and the responses of the proponents and opponents of privatisation.

Of course, economic imperatives play a role in setting the parameters of the size and responsibilities of the public sector. However, the political calculations tend to influence prioritising, particularly when choices must be made between such conflicting goals as revenue raising, competition, efficiency, private ownership and partisan realignment. It can thus be argued that while the economic imperatives set the scene for

⁷¹ There were instances where the privatised industrial units had been completely dismantled by the new owners for quick return. Besides, many private entrepreneurs had industrial credit from the development finance institutions or nationalised commercial banks in the name of setting up new industries. But actually they did not set up industries for which credits were advanced. This became apparent in a survey conducted by the Bangladesh Board of Investment, Government of Bangladesh. See *Bangladesh: Privatization and Adjustment*, The World Bank, Report no. 12318BD, 1994.

⁷² See Buchanan, J., "The Constitution of Economic Policy" *Science*, No. 236, 1987, pp. 1433-36.

privatisation, they generally do not dictate the staging and execution of it, nor do they determine the outcome of the story.

The World Bank, the strongest proponent of neo-liberalism, in one of its reports, suggests that political considerations are necessary condition for economic reform in general and privatisation in particular. The report identifies political obstacles to be the most important reasons why privatisation or public enterprise reforms have made so little headway in the last decade. The report emphasises that the existence of a congenial economic atmosphere does not guarantee effective implementation of privatisation or public enterprise reform. It asserts that successful implementation of privatisation or public enterprise reform depends on three political ingredients; political desirability, political feasibility and political credibility of the ruling politicians.

First, reform or privatisation becomes politically desirable to the leadership and its constituencies only when the political benefits outweigh the political costs. This generally happens if there is a change of regime or coalition shift or amidst severe economic crisis that makes the reform preferable to the status quo. It is also important to note that if the groups opposing reform constitute an important part of the ruling politicians' support base, then privatisation or public enterprise reforms are bound to be stalled.

Secondly, privatisation or public enterprise reform becomes politically feasible if the ruling politicians have the means to implement policy and to withstand opposition to reform.

Thirdly, a reform becomes politically credible only when the investors believe that government will not re-nationalise the already privatised firms. Twelve economies are examined in the report: Chile, China, Czech Republic, Egypt, Ghana, India, Republic of Korea, Mexico, Philippines, Poland, Senegal and Turkey. Among these countries Korea, Chile and Mexico met the above-mentioned conditions and became highly successful reformers, whereas India and Senegal are identified as the poor performers where none of these conditions prevailed. The rest of the countries are middling cases, as the one or the other aforesaid political conditions were absent.⁷³

Henig and others maintain that as privatisation moves from theory to practice, political and economic goals of privatisation often come into conflict.⁷⁴ Veljanovski observes that whenever there is a tension between

⁷³ For details see The World Bank, *Bureaucrats in Business- Economics and Politics of Government Ownership*, Oxford University Press, 1995. p. 257

⁷⁴ See Henig, J.R., Hamnett, C., Harvey, B. F., "*The Politics of Privatization....*" op.cit. 1988, pp. 442-468.

the economic and political goals of privatisation, political goals are given priority by the ruling party implementing the programme.⁷⁵ As will be seen, the Bangladesh case supports this hypothesis. This study seeks to demonstrate how privatisation was used to serve the reciprocal interests of the ruling politicians and other politically important groups.

The study seeks to develop a political analysis of privatisation which departs from the mainstream view, based on economic analysis. Here, the interplay of various political factors and actors in moulding privatisation is crucial. As a matter of fact, privatisation evolves and administered in a country's specific political environment. In the context of a developing country, this environment is comprised of important actors such as politicians, business interests, bureaucrats, organised workers and foreign aid donors.

The study, therefore, seeks to identify and analyse the role of each of these actors involved in the privatisation policy process, with reference to Bangladesh. We argue that privatisation policy in Bangladesh has been initiated and subsequently followed by the successive regimes in order primarily to attain their political goals. The study demonstrates why and how these goals were pursued through privatisation policy by successive regimes. We analyse how the political allies and the support base of the regimes were rewarded. We explore the reasons for and the extent of bureaucratic support and opposition to privatisation policy. We show how the opposition to privatisation has been managed by ruling politicians. The study demonstrates the extent of workers' resistance to privatisation and explains how it was tackled by the successive regimes. The study also investigates the donors leverage over the privatisation policy in Bangladesh, and explains why donors' influence is more visible at the formulation than at the implementation stage of privatisation programmes. The analytical framework we adopt for the study of the politics of privatisation draws essentially upon the literature on interest groups and collective choice. We consider that collective choice theory provides effective analytical tools for an empirical inquiry into the political dimensions of privatisation. As mentioned earlier, privatisation directly affects or concerns a number of organised groups in a given society in different ways. Each of these groups has its own interests, but they often vary significantly.

In a situation of conflicting interests, each group tends to pursue its own goals in a way that maximises its stake. According to Olson, public

⁷⁵ For a similar analysis on this in the context of Britain see Veljanovski, C., *Selling the State: Privatisation in Britain*, Weidenfeld and Nicolson, London, 1987, p. 17-19.

policy reflects the existence of distributional coalitions in society that seek to shape and control the allocation of public resources to the benefit of their members. Olson, while considering the problem of collective action, points out the difficulty of sustaining joint activities when individuals perceive that they will achieve the benefits sought even without contributing their time, effort, and money to group action.⁷⁶ Riker and Ordeshook however note that individuals can not always achieve their self-interest individually, and therefore find it rational to join together with other individuals whose self-interest corresponds with their own to press for the achievement of common goals. In this way individuals can transform their pursuit of self-interest into group action.⁷⁷

Each of these groups is capable of putting pressure on ruling politicians to realise their group objectives. Some have argued that virtually all interests have the capacity to organise and attempt to influence government and thus, the actions of government are just the outcome of an open competitive market of ideas.⁷⁸ Others, however, have noted the extent to which social class, money, and access give privileges to certain groups and gain them preferential treatment by government. In this view government action is usually biased in favour of the interests of the middle and upper classes who are politically important if the ruling politicians are to retain office.⁷⁹

It is, therefore, often argued that the governments of liberal democracies are captured and manipulated by various interest groups, and that public policies are distorted by them.⁸⁰ As will be seen in this study, the Bangladesh case of privatisation suggests that the above-mentioned influences may also prevail in a soft authoritarian state (e.g. the Zia and Ershad eras), as well as in a limited democracy (e.g. Khaleda Zia era). More importantly, we show that the logic of influence can also

⁷⁶ See Olson, M., *The Logic of Collective Action: Public Goods and the Theory of Groups*. Schocken Books, New York, 1965.

⁷⁷ See Riker, W. H., and Ordeshook P. C., *An Introduction to Positive Political Theory*, Englewood Cliffs- Prentice Hall, New Jersey, 1973.

⁷⁸ See Truman, D., *The Governmental Process: Political Interests and Public Opinion*, Knopf, 1951, New York. Also see Lane, R. E., *Political Life*, Glencoe, Ill., 1959, Free Press. For a similar analysis see also Dahl, R., *Who Governs? Democracy and Power in an American City*. New York, 1961, New Haven, Yale University Press.

⁷⁹ See Lowi, T. J., *The End of Liberalism: Ideology, Policy, and the Crisis of Public Authority*, Norton, New York, 1969.

⁸⁰ One of the famous advocates of this argument can be found in Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities*, Yale University Press, New Haven, U.S.A., 1982.

work the other way. Politicians also have great manipulative power over various other interests.

The interest groups, by dint of their organisational strength, are usually in a position to put pressure on the politicians to derive desired benefits. However, the amount and extent of benefits they derive depends on the relative strength of the group and more importantly, the relative importance of a particular group compared to other competing interests at a given period of time. But the politicians can also manipulate the interest groups, using the resources and powers at their disposal to achieve their political goals. It is to be noted that politicians' choices of target groups, and the benefits that politicians provide may change, depending on conditions in a given country and the type of the strategy adopted by the government to retain office.⁸¹ In Bangladesh, during the period under consideration, there has been a two-way dependency relationship between successive regimes and powerful interest groups.

On the basis of the preceding discussion, it can now be safely suggested that privatisation is more than an economic operation. While privatisation is partly an attempt to solve the problems of inefficiency, wastefulness, and unreliability alleged to be inherent in the state-owned enterprises, in the real world the decision to privatise is essentially triggered by both economic and political considerations.⁸² The central argument of the study is that the prime impetus for privatisation often comes from the pursuit of the political goals of the ruling party, the major one being to maintain itself in power. In this sense, privatisation policies are designed to benefit certain groups in the society whose political support the ruling politicians are seeking to secure. As Dobek observes,

The political benefits to such politicians can be numerous and range from increasing the number of shareholders and property owners (voters with a stake in the market economy), weakening the power of competing political groups and depleting their membership, to changing the political values, beliefs, and prevailing attitudes of the society.⁸³

⁸¹ See Dobek, M. M., op.cit., p. 3.

⁸² See Wolfe, J. D., op.cit., p. 3. See also Wiltshire, K., *Privatisation : The British Experience*, Longman Cheshire, Melbourne, Australia, 1987., Also Riddell, P., *The Thatcher Decade*, Basil Blackwell, Oxford, U.K., 1989., Moon, J., *Innovative Leadership in Democracy: Policy Change Under Thatcher*, Dartmouth, U.K. 1993. Kavanagh, D., *Thatcherism and British Politics: The End of Consensus*, Oxford University Press, Oxford, 1990.

⁸³ See Dobek, M. M., op.cit., p. 4.

We, therefore, argue that privatisation should not be treated merely as a choice among means to achieve declared broad economic or social goals, because it often takes the form of a deliberate strategy to realign institutions and decision-making processes so as to privilege the goals of some groups over the competing aspirations of other groups. We believe that the key to understanding politics and public policy is to understand the composition and interaction of interest groups in the society and the claims they make on government. In general, public policy is the result of the pushing and hauling among interest groups and their efforts to influence government through lobbying. The actions of ruling politicians reflect the distribution of power among interests in society, but can also change this.⁸⁴

As privatisation substantially shifts the responsibilities from government to the market, it tends to alter the institutional framework through which the public in general articulates, mediates or promotes individual or collective interests. The consequences of such an institutional re-organisation are varied. As Henig and others observe that

Some groups in a more privatized arena would find their interests more clearly defined and more readily promoted; other groups would find the opposite. Because of these consequences, privatization is an intensely political phenomenon and ought to be analyzed as such.⁸⁵

Yet much of the literature on the subject de-emphasises politics and political institutions, and instead presents it as a pragmatic adaptation of well-tested administrative techniques or a necessary exercise in economic adjustment to structural constraints. Let us now elaborate the major focus of administrative and economic perspectives of privatisation and their limitations, and the relevance and relative importance of political perspectives.

⁸³ See Grindle, M. S., "The New Political Economy: Positive Economics and Negative Politics" in Williamson, J., (ed.) *The Political Economy of Policy Reform*, Washington Institute for International Economics, 1993, p. 41-67.

⁸⁴ See Henig, J. R., and Feigenbaum, B. H., "The Political Underpinnings of Privatization- A Typology" *World Politics*, No. 46, 1994, pp. 185-208.

⁸⁵ These approaches were first introduced as a systematic analytical scheme by Henig and Feigenbaum, but their ideas were influenced by the work of Ben Ross Schneider in the context of Brazil. See Henig, J. R., and Feigenbaum, B. H., *Ibid.*

Box 1: Three Contrasting Approaches⁸⁶ to Privatisation

	Administrative Approach	Economic Approach	Political Approach
Main Focus	Achievement of socially defined goals	Maximisation of individual's utilities	Redistribution of power and control
Unit of Analysis	Discrete societal problem	Individual/firm	Group/Class
Concept of Privatisation	Tool box	Preferred mechanisms	Weapon

The administrative perspective presents privatisation as a series of options available to public officials wanting to make the government work better. This perspective stresses the "good government" orientation of the regime and represents a "tool box" of techniques from which the officials may use those most appropriate to achieve their targets. The officials' choice of tools vary depending on the particular situation they are in.⁸⁷ Generally these tools include asset sales, contracting out, vouchers, user fees, deregulation and so on.

The economic perspective presents privatisation as the inevitable consequence of neo-classical options which entail the contraction of a bulky, intrusive, and parasitic welfare state. There is a view that the cost of running the welfare state lead to predatory taxation which reduces profit margins and discourages private initiatives.⁸⁸ The economic perspective thus tends to categorise privatisation initiatives in relation to three major components: ownership, competition, and efficiency. This perspective treats the sale of assets as the best form of privatisation as it simultaneously reduces the public sector deficit, reduces the size of the governmental apparatus, shifts decision making to private actors and generally gives more people a direct material stake in promoting economic growth.⁸⁹

As we can see, these interpretations neglect the political dimensions of privatisation that emanate from the ever-conflicting interests of contending classes and groups. Besides, the characterisation of

⁸⁶ See for instance, Salamon, L., *Beyond Privatization: The Tools of Government Action*, Urban Institute, Washington, U.S.A., 1989. Also see Bendick, M., "Privatizing the Delivery of Social Services: An Idea to Be Taken Seriously", in Kamerman, S. B., and Kahn, J. A., (eds.) *Privatization and the Welfare State*, Princeton University Press, U.S.A., 1989.

⁸⁸ See Becker, S.G., "Surprises in a World according to Adam Smith", *Business Week*, August, 17, 1992.

⁸⁹ See Henig, J. R., and Feigenbaum, B. H., "The Political Underpinnings....." op.cit., p. 188.

privatisation as economic adjustment is overly deterministic, it underemphasises the actual variations in the behaviour of those who are involved in the privatisation policy process in a given society.⁹⁰ It also downplays the motivating power of extra-economic factors. Other scholars observe that economic and administrative perspectives ignore the potential capacity of privatisation initiatives to alter the landscape of politics and political interests.⁹¹ Feigenbaum and Henig argue that a privatisation initiative is, in many of its manifestations, better understood as a political phenomenon than as a technical adjustment to changing conditions or as an application of economic theory.⁹² These scholars suggest a typology of privatisation on the basis of the motivations of the key actors. The typology provides an analytical framework to deal with the different dimensions of privatisation. There are three types of privatisation strategies: pragmatic, systemic and tactical.⁹³

Pragmatic privatisations are generally crisis driven. Privatisation takes place to solve a budgetary or balance of payment deficit. Adjusting to changing circumstances is one of the major thrusts of such privatisations. Privatisation in Ghana and Mexico form good examples of pragmatic privatisation. It is interesting to note that a pragmatic privatisation initiatives can often turn tactical. However, they are frequently introduced as technical solutions to meet an immediate problem. Pragmatic privatisations are generally carried out by bureaucratic units somewhat insulated from the push and pull of normal political pressures.

⁹⁰ See King, D. S., *The New Right: Politics, Markets and Citizenship*, Dorsey Press, Chicago, 1987. See also Rein, M., "The Social Structure of Institutions: Neither Public nor Private" in Kamerman, S.B. and Kahn, J. A., (eds.) *Privatization and the Welfare State*, Princeton University Press, U.S.A., 1989.

⁹¹ See for example, Wolfe, J., "Reorganizing Interest Representation: A political Analysis of Privatization in Britain", in Foglesong, E. R. and Wolfe, J. D., (eds.), *The Politics of Economic Adjustment*, Greenwood, New York, 1989. See also Feigenbaum, B. H., "France: From Pragmatic to Tactical Privatization", *Business in the Contemporary World*, No. 5, 1993. Also see Henig, J. R., "Privatization in the United States: Theory and Practice", *Political Science Quarterly*, No. 104, 1990. Also Schneider, R. B., "Privatization in Brazil and Mexico: Variations on a Statist Theme," in Suleiman, E. N., and Waterbury, J., (eds.), *The Political Economy of Public Sector Reform and Privatization*, Westview Press, Boulder, U.S.A., 1990.

⁹² See Henig, J. R., and Feigenbaum, B. H., "The Political Underpinnings...", op.cit., pp. 185-208.

⁹³ It is to be noted here that similar typology was also developed by Ben Ross Schneider in an earlier study. For example see Schneider, R. B., "Privatization in Brazil and Mexico: Variations on a Statist Theme," in Suleiman, E. N., and Waterbury, J., (eds.), *The Political Economy of Public Sector Reform and Privatization*, Westview Press, Boulder, U.S.A., 1990.

Systemic privatisation intends to reshape the society by fundamentally altering economic and political institutions, and by transforming economic and political interests. Rather than providing temporary solutions to specific problems, it aims at permanently changing class relations. Therefore, this type is considered to be the most ideological in its manifestation. Privatisations in most of the East European countries offer examples of this type of privatisation. Systemic privatisation involves an 'institutional shift', which calls for transferring the mechanisms of social control from bureaucratic and political structures to market forces.⁹⁴

Tactical privatisations are initiated to achieve the short-term political goals of particular parties, politicians, or interest groups. They seek to mould the balance of power by attracting allies and rewarding supporters. For example, the Chirac government of France undertook a programme of selling assets between 1986 and 1988 in a way that aimed primarily at winning an election.⁹⁵ The main aim of this privatisation strategy is to attract voters and reward supporters, while weakening the political opposition. A country following this particular strategy tends to sell public enterprises at discounted prices as form of patronage to achieve desired political goals. It is to be noted that the ruling politicians seek to maximise support not only in terms of votes, but also in terms of rewarding groups whose support is essential when votes are irrelevant, or when there is no agreement that voting will determine the outcome of conflict. Thus, public resources that flow to businessmen or industrialists, or other important groups are resource transfers by political elite to buy the support of these groups.⁹⁶ The box-2 below shows the difference between the economic goals and political dimensions of privatisation. It exhibits how economic and political motives exist side by side under different privatisation techniques which we have discussed.

⁹⁴ See Wolfe, J., "Reorganizing Interest Representation: A political Analysis of Privatization in Britain", in Foglesong, E. R. and Wolfe, J. D.,(eds.), *The Politics of Economic Adjustment*, Greenwood, New York, 1989.

⁹⁵ See for example Bauer, M., "State Directed Privatization: The Case of France", *West European Politics*, No. 11, 1988.

⁹⁶ See Ames, B., *Political Survival: Politicians and Public Policy in Latin America*, Berkeley, 1987, University of California Press.

Box 2: Conceptualising Political Dimensions of Privatisation

	Economic goals	Political Dimensions
	-raising revenues -reducing budget drain -adjusting to changing circumstances	-reward supporters -attract voters -retain office
Asset sales	selling public enterprises to the private sector with view to increase efficiency, competitiveness, private sector development and democratisation of capital	distribution of patronage through selling of public enterprises often at discounted prices
Contracting out	ensuring competitive bidding among private firms to provide service where contracting agency has enforcement capacity	awarding "sweetheart" contracts to campaign contributor/friends/relatives
Liberalisation/de-regulation	liberalising or deregulating sectors that are not natural monopolies, coupled with protection of consumer interests	reduce enforcement of regulations that fall heavily on supporters
User fees	raising new revenue and diversifying revenue alternatives	making it possible for the ruling politicians to cut or avoid raising an unpopular tax

So what we see here is that politics is central to privatisation or economic reform in general: in its causes, its conduct and its impact. At the deepest level, it is the politics of a society and the interests within it which regulate the nature of this interaction between state and market. The extent and nature of politics that is involved in case of privatisation or economic reform will greatly vary depending on (i.) political nature of economic reform coalitions and (ii.) the relation between economic reform "from above"(state sponsored) and "from below"(socially demanded). The political basis of economic reform would be stronger when there is the possibility of alliances between reform-minded elements of established regime and those social interests from below that are dissatisfied with the existing status quo.⁹⁷

As will be seen in this study, in Bangladesh the economic reform or privatisation was demanded by economically powerful and politically important interest groups, and soon they secured the state sponsorship.

⁹⁷ See Dearlove, J., and White, G., "Editorial Introduction", IDS Bulletin, 1987, Vol. 18, No. 3, pp. 1-3.

What is important here to note is that successive regimes had not responded to the demands of those groups because they were captured by these powerful interests, but they had done so to essentially serve their reciprocal interests. It is against this conceptual background that we intend to examine the political dimensions of privatisation in Bangladesh focusing on politics and interplay of various groups involved in the process.

Methodology And Data Sources

This study combines qualitative and quantitative research adopting a flexible approach to serve the specific requirements of the topic. It is based on both primary and secondary sources. A year long field research was undertaken to gather primary evidence. This provided access to internal documents of different institutions involved in the process of privatisation, and data from ministries, public corporations and enterprises. The methods of primary data collection used in the study are as follows:

1. In-depth, semi-structured interviews were conducted with privatised mill-owners, industrialists, business leaders, politicians, civil servants, representatives of the donor community, trade union leaders, industrial workers, academics and researchers, which yielded immense insight into key issues. People who had some direct or indirect connections with the privatisation process were given priority in the selection of respondents. The following considerations influenced selections.
 - a. Privatised jute and textile mill-owners were interviewed as they had directly participated in the privatisation process. The list of the privatised jute and textile mill owners was obtained from the Bangladesh Jute Mills Association (BJMA) and the Bangladesh Textile Mills Association (BTMA)
 - b. Industrialists were selected who had either participated in privatisation bidding or actively supported privatisation and private sector development. (A list of such industrialists was obtained from the Ministry of Industries and the Privatization Board, Government of Bangladesh.)
 - c. Those business leaders were chosen for interviews who either headed or occupied senior positions in the different business chambers and therefore, had interacted frequently with the government and bureaucracy (The list was made available by different business chambers located in Dhaka.)

- d. Since the study covers three regimes between 1975 and 1995, interviews were conducted with senior politicians including existing and ex-MPs, and ex-Ministers, of the three regimes, namely the Zia, Ershad, Khaleda Zia. We also interviewed a number of senior politicians of the former major opposition but present ruling party, the Awami League (henceforth AL).
 - e. Those civil servants were chosen for interviews who had occupied important positions between 1975 and 1995, and served the important ministries or public corporations which had direct bearing on the privatisation process--for example, Ministry of Industries, Ministry of Jute, Ministry of Textile, Ministry of Finance, Bangladesh Jute Mills Corporation (BJMC), Bangladesh Jute Corporation (BJC), Bangladesh Textile Mills Corporation (BTMC), Privatization Board, and the Board of Investment. Interviewed a number of civil servants who were in service at the time of interviews. My preference, however, was for retired civil servants because of their vast experience in government, and the possibility that they might feel freer to speak. Most of them allowed the use of a tape recorder and suggested names of their colleagues for interviews.
 - f. Senior representatives were selected from major donor agencies that had supported privatisation over the years. These turned out to be particularly important.
 - g. A number of major trade union leaders were interviewed to obtain information about their attitudes towards privatisation and their involvement in the movement against it. (The list of these leaders was collected from the Directorate of Labour, Government of Bangladesh). Besides, a number of jute and textile mills workers were interviewed on visits to trade union offices and at mill sites located around Dhaka city.
 - h. Those academicians and researchers were chosen for interviews who were familiar with our area of research.
2. Three different sets of questionnaires were administered to a selected sample of 55 privatised jute and textile mill owners, 80 bureaucrats (including 40 from the jute and textile ministries and 40 from the public sector jute and textile corporations under the ministries), and 30 representatives of different donor agencies to gather first hand information. Both purposive and random sampling techniques were used in selecting the respondents. A great deal of care was taken in designing the questionnaires. We requested only information which

we considered essential and obtainable. In the case of privatised jute and textile mill owners, we administered 55 questionnaires (30 sample mill-owners from the jute sector and 25 from the textile sector) with a cover letter from the top executives of BJMA and BTMA requesting their member mill-owners to promptly fill in the questionnaires and to provide necessary information for the study.

We made prior appointments with the mill-owners and met them in person. Generally we had long discussion sessions with them and those sessions were very revealing.

For civil servants and donor representatives we also took the structured questionnaires with us while meeting them. Firstly, we briefly explained the premise of the research to them. Many of these respondents preferred to fill in the questionnaires at a later date. This was mainly due to their relatively busy schedules. We then organised interviews with the respondents, upon receipt of the questionnaires. We managed to interview nearly half of the total sample from each category. Strict confidentiality was promised and assurance was given to use the information for academic purposes only. In all three cases, our main concern was to make the sample as representative as possible, and we believe that the selected sample were truly representative. As will be seen in the study we have referred extensively to those respondents who were interviewed. Some from all categories gave permission to refer to their names, institutional affiliations and positions while developing the analysis.

3. To study the politics-business relationship we adopted a 'Case Study' method. Five well-known business groups were studied to find out the level and nature of connections and relationships these groups maintained with successive regimes between 1975 and 1995. The rationale behind selecting these particular business groups was that they all were beneficiaries of the privatisation process in one way or other. All these groups were identified as big bank-loan defaulters by the Bangladesh Bank (Central Bank of Bangladesh). Information about these groups in newspaper reports also helped us to explore issues further. Particularly useful were the reports published in the *Weekly Ekota*, *Weekly Bichinta*, *Weekly Holiday*, and *Daily Bhorer Kagoj*. Besides, interviews, and formal and informal discussions with those who were intimately related to the various groups were helpful in the case studies. We cross-checked the information we received about a business group with as many sources as possible to make fair and objective judgements while using data and analysing information.

4. We also surveyed the major national dailies and weeklies to gather first-hand information on the privatisation process and related topics. This provided very valuable information on events and political trends.
5. Observation, in the form of field diary notes and our personal experiences, was also used in the analysis.

The study also exploits data and information collected from official documents such as development plans, industrial policy statements, annual reports of the jute and textile corporations, official investigation reports, statistical year books, private publications, Bangladesh economic surveys, Bangladesh Bank Annual Reports, etc. In addition, relevant World Bank, IMF and ADB documents have been consulted. World Bank country reports of various years, seminar papers, research reports etc. have been frequently used. Among the secondary sources, the literature on politics, political economy, development studies and particular books and articles on privatisation, private sector development, public enterprise reform, public-private divide have been consulted.

Chapter Two

Privatisation: the Political Dynamics

Introduction

The chapter examines the political dynamics behind the emergence of privatisation and explore reasons why privatisation was sustained as a main agenda item under successive regimes. The main argument put forward is that in Bangladesh privatisation was designed and implemented in a way that helped the ruling politicians to attain their political goals rather than stated economic goals. The chapter shows how privatisation was grounded in a two-way dependency relationship between the ruling politicians and dominant interests, and served their reciprocal interests. The chapter helps us to understand the degree to which the policy shift was ideologically driven and, more importantly, why and how it was tactically manipulated to suit the needs of both ruling politicians and important interest groups.

Table 3: Privatisation under Successive Regimes, 1975-95

Regime	Percentage of the Total (1350) Public Commercial Enterprises Privatised	Percentage of the Total (592) Industrial Enterprises Privatised	Percentage of the Total (65) Jute and Textile mills Privatised
BNP (1975-81)	31%	43%	6%
JP (1982-90)	26%	31%	92%
BNP (1991-95)	-	2%	2%

Source: Information derived from the Ministry of Industries, Government of Bangladesh, 1996.

Between 1975 and 1995, Bangladesh experienced a massive programme of privatisation in the industrial sector. Clearly, the policy shift occurred due to the growth of the private capital and the corresponding need to open-up an avenue of investment for it on the one hand¹ and more importantly successive regimes' calculations of political convenience on the other.

¹ See Alam, Q., "Privatisation Policy and the Problem of Industrial Development in Bangladesh", *South Asia*, Australia, New Series, Vol. XII, No. 2, 1989.

We argue that privatisation was introduced and subsequently pursued primarily to achieve a set of political goals of successive regimes. From the political changeover in 1975 until 1990, the country was ruled by two military regimes that gradually civilianised themselves and shared power mainly with the civil bureaucracy and powerful economic interests such as industrialists, traders, businessmen, and the rural rich-- in short, the affluent groups in society. Since civil and military bureaucrats originated in the same affluent groups, it was easy for them to forge an alliance with those who favoured privatisation and a strong private sector.² What is significant here is that there was not any departure from privatisation process even between 1991 and 1995, when the country had an elected political regime.

Throughout the period under review, privatisation policy process has been subject to political manipulation to suit the needs of powerful individuals or groups tied to the ruling party. Despite the favours shown to clients and industrialists, the three regimes under consideration were extremely centralised, with huge powers in their respective leaders' hands. These powers were often used either to advance the interests of the leaders themselves, or in the greater interest of party politics, or both.

This chapter examines the political content of the policy shift and look for qualitative changes in the way the policy process was managed under various types of regimes. As the major emphasis of the successive regimes was on the market-led industrial growth, the size of the public sector was markedly reduced over these years.

There is no denying that the dismal performance of the public sector created the economic grounds for privatisation.³ But we argue that

² See for example, Alam, Q., "The Nature of the Bangladesh State in the Post-1975 Period." *Contemporary South Asia*, Vol. 2, No. 3, pp. 311-325.

³ In a World Bank Report published in 1996, it was estimated that public enterprises incurred a total loss of Tk. 20 billion in 1993 which was equivalent to 27% of the government's Annual Development Programme, 45% of project aid disbursements, 2% of GDP, 2 times the amount of actual development expenditure spent on education and 7 times the development expenditure on health. And the combined losses of the Bangladesh Jute Mills Corporation and Bangladesh Jute Corporation was estimated at Tk. 5.9 billion during the 1992-93 fiscal year while the total loss incurred by Bangladesh Textile Mills Corporation was estimated at Tk. 959 million during the same period. See The World Bank, *Bangladesh - An Agenda for Action*, Washington, June, 1996. p. 60. Also see The World Bank, *Bangladesh- Privatization and Adjustment*, Report No. 12318 BD, March, 1994. p. 7.

privatisation is not only an economic exercise, it is essentially and intensely a political process. In fact, in Bangladesh economic goals were often downplayed or became secondary to the politics of privatisation, as has happened elsewhere.⁴ Let us now consider the changes in industrial policy and the political management of the privatisation process under successive regimes.

Politics and Privatisation during the Zia Era

Following a series of coups General Ziaur Rahman, re-established a bureaucratic-military state modelled after the Ayub Khan government of Pakistan. One of the first major issues that faced Zia's new government was the economy. The regime had inherited a major economic crisis from the earlier era.⁵ Just after coming to power, Zia reversed the Awami League's socialist approach because he considered that a radical socialist agenda would polarise society and sharply reduce desperately needed Western financial aid and support.⁶

In that atmosphere of politico-economic crisis, the protagonists of the private sector made themselves visible. Zia came under pressure from the Bangladeshi business elite, the World Bank, and a section of senior members of the newly restored bureaucracy to expand opportunities for the private sector. In response, there was an explicit and clear policy statement from him in favour of a mixed economy with an emphasis on privatisation and private sector-led development. He immediately withdrew bans on private investment, and decided to privatise those industries which had been nationalised in 1972.⁷

⁴ For example, see Elliot, B., and Shirley, M., *Divestiture in Developing Countries*, The World Bank Discussion Paper, No. 11, The World Bank, Washington DC, 1987., Commander, S., and Killick, T., "Privatisation in Developing Countries: A Survey of the Issues" in Paul Cook and Colin Kirkpatrick (eds.), *Privatisation in Less Developed Countries*, St. Martin Press, New York, 1988., Glade W., "Privatization in Rent-Seeking Societies" *World Development*, 1989, Vol. 17, No. 5, pp. 673-682, Liberman, I. E. "Privatization" *The Columbia Journal of World Business*, Spring 1993, pp. 9-17., And also Manor, J., "The Political Sustainability of Economic Liberalization in India" in Robert Cassen and Vijoy Joshi (eds.) *India- The Future of Economic Reform*, Delhi, Oxford University Press, 1995, pp. 341-363.

⁵ See Maniruzzaman, T., *The Bangladesh Revolution and Its Aftermath*, Dhaka, Bangladesh Books International, 1981, pp. 158-62. see also Kochanek, S. A., op.cit., pp. 75-81.

⁶ See Franda, M., *Bangladesh : The First Decade*, New Delhi, South Asian Publishers, 1982, p. 244.

⁷ See *The Bangladesh Observer*, Dhaka, a national daily newspaper, 23 June, 1976.

This new industrial strategy received considerable support of the civil and military bureaucracy and the economic elite in general, because the vast bulk of those officers came from rich rural or urban family backgrounds.⁸ Zia also realised that without the support from the civil bureaucracy he would not be able to implement any policy, let alone privatisation. Thus, he attempted to rehabilitate senior Bengali members of the old central superior services of Pakistan who had been dismissed by the AL government for maintaining intimate connections with the Pakistan government during the liberation war. During the Zia era, these leading civil servants came to dominate the key positions in the government, especially in the economic ministries.⁹

Some of them played instrumental role in the subsequent privatisation process.¹⁰ In pursuing that policy, Zia also relied on former army officers, and anti-Awami League professionals and technocrats. One of his chief economic advisers was Shafiul Azam, a senior CSP officer who had been dismissed by the AL government. Azam was determined to rehabilitate the industrial sector and advised the government to privatise public enterprises, and restore private sector development. He convinced Zia in 1975 and Ershad in 1982 to institute their two major privatisation initiatives.¹¹

According to the former Finance Minister Saifur Rahman, Azam's predisposition, plus pressure from the World Bank, bilateral donors, and the business elite persuaded Zia to undertake a major initiative in favour of privatisation. Alam argued that Zia's strategy to achieve economic development was to use bourgeois democratic forms to accommodate the interests of the military and civil bureaucrats and the economically powerful sections of the community.¹² The new regime, to launch its campaign for political legitimacy, required support and finance from the

⁸ For details see Franda, M., op.cit. p. 365.

⁹ For an analysis on this see Khan M. M., and Zafarullah, H. M., "Public Bureaucracy in Bangladesh" in Tummala, K. K. (ed.) *Administrative Systems Abroad*, Washington, D.C., University Press of America, pp. 158-87.

¹⁰ For instance, among the civil servants Shafiul Azam, Jalal Ahmed, Shafiqur Rahman were re-appointed during the Zia period and held important positions. It is well known that Shafiul Azam was one of the Architect of the privatisation policy. He convinced President Zia about the state sponsored capitalism which the regime pursued.

¹¹ Interview with Akhter Ali, Ex-Secretary, Ministry of Industries, Government of Bangladesh, Dhaka, 04 December 1997.

¹² See Alam, Q., "The State: Weak and Fragmented" in Zafarullah, H., (ed.) *The Zia Episode in Bangladesh Politics*, New Delhi, South Asian Publishers, 1996, pp. 50-55.

existing and emerging bourgeoisie and in return, they demanded a large share in trade and industry via privatisation and liberal economic policies.

What changes in industrial policy occurred between 1975 and 1981, under the Zia regime? A new policy was announced in December 1975 in order, it was claimed, to improve the investment climate.¹³ Investment approval and loan disbursement procedures were simplified, private investment (both local and foreign) was permitted in an additional 10 sectors, reducing the reserve sector to a hard-core consisting of eight categories of industries. The main features of the policy were as follows:

- a. The ceiling on investment in the private sector was raised from Tk. 30 million to 100 million and then finally abolished in September 1978.
- b. Rather than imposing a restricted time period during which assets would be exempted from nationalisation, there would be no nationalisation.
- c. Industrial finance bodies were allowed to participate in or provide equity and loan capital to provide sector industries.
- d. The Investment Corporation of Bangladesh was set up in order to provide bridging finance and underwriting facilities to private entrepreneurs.
- e. With a view to bringing un-utilised funds into productive use and to facilitate the purchase of divested abandoned enterprises, it was allowed that those who disclosed un-utilised funds could use them for new investment or to purchase privatised enterprises without any questions from the government.
- f. Industrial enterprises which had been taken over as abandoned units and placed under various public sector agencies for management would be divested to private entrepreneurs.

As mentioned earlier, business groups provided strong support to the regime immediately after its assumption of power. These groups continued to support it after the announcement of the new policy. A representative of the private sector expressed his satisfaction about the government-business relationship. He stated,

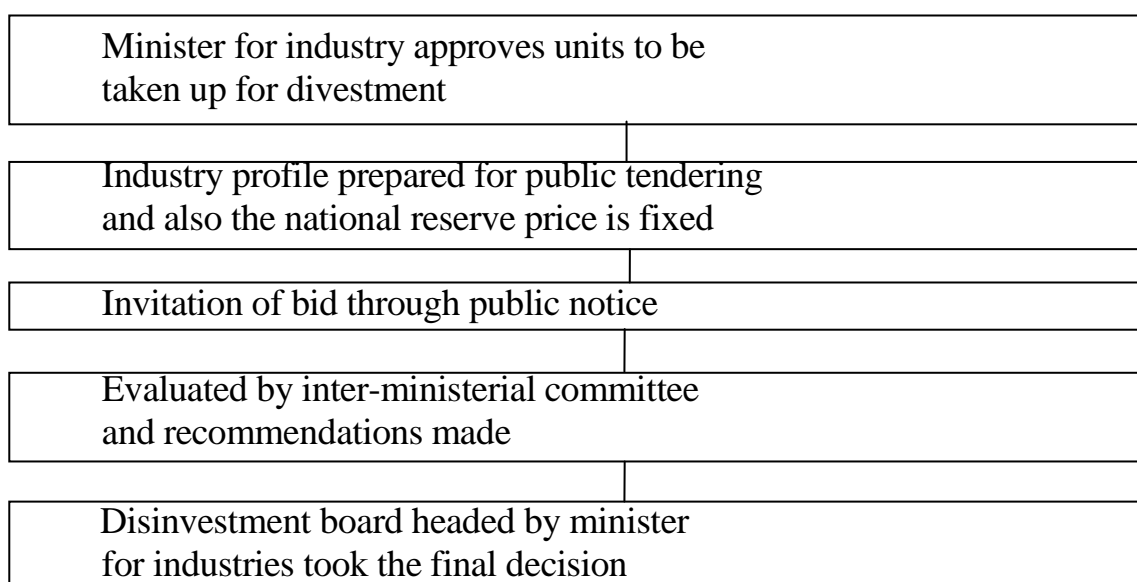
The understanding between the government, businessmen and industrialists is now increasing. The tendency of mutual distrust and blame amongst the government businessmen and industrialists since liberation is now a thing of the past.¹⁴

¹³ See *the Industrial Policy, Ministry of Industries, Government of Bangladesh, 1975*.

¹⁴ The statement made by the President in 1976, Chittagong Chambers of Commerce and Industries, quoted in Yusuf, F. H., *Nationalisation of Industries*

Zia, however, proceeded carefully with privatisation. He did not want to antagonise any social group. He quite cleverly maintained a balance between the private and public sector for his own political gains. The regime needed a public sector for development and to provide political patronage to labour, indentors and distributors. At that time, however, there was a pressing need to create a support base amongst the emerging middle class interests through the promotion of privatisation and private sector development. Those groups were politically important to the regime, partly because of their relatively strong economic position but mainly because of the rulers' intimate social ties with them.¹⁵

Figure 1: Privatisation of Public Enterprises: The Implementation Scheme



In December 1975, the government established a Disinvestment Board to facilitate the privatisation process. A decision was made to return several specialised textile and jute mills to their former Bangladeshi owners/shareholders if they were ready to pay for the remaining part of their industries at book value and they were exempted from paying for the portion previously owned by them. This was significant because jute and textile were the core sectors nationalised by Mujib. According to a civil servant who was closely involved in the privatisation process, the specialised jute and textile units were selected initially because they were operationally better suited to small-scale management.¹⁶ However, we

in Bangladesh, Dhaka, National Institute of Local Government, Dhaka, Bangladesh, 1985. p. 100.

¹⁵ See *the Holiday*, Dhaka, a national English newspaper, December 7, 1984. See also Alam, S. M. S., *The State, Class Formation, and Development in Bangladesh*, New York, University Press of America, Inc., 1995, pp. 86-90.

¹⁶ See Chisty, S. M., *Privatization in Developing Countries: The Experience of Bangladesh* (a paper presented at the Conference on *Privatization Policies*,

argue that this occurred as a result of pressure from business groups-which were interested either in getting their mills back or in buying mills or shares of mills being privatised.

During the five years of Zia' rule, a total of 255 public sector industrial enterprises were privatised, of which 110 were divested from major public sector corporations.¹⁷ It was also declared that loss-making and non-monopolistic industries which were not feeders to other government-owned industries would be handed over to their previous owners or to the highest bidders.¹⁸ Zia, in his address to the Chambers of Commerce and Industries in Dhaka in August 1976, stated that, "The government is ready to extend all possible support to the private sector for utilising the full potential of the private entrepreneurs in stepping up the productive economic activities in the country".¹⁹ In a meeting with representatives of those Chambers in December, 1976, he called for "a dynamic private sector" and asked the private entrepreneurs to harness their "energy, initiative, dynamism and resources to that end."²⁰

The businessmen and industrialists were given all possible support; foreign exchange was provided at less than its market value through import licensing, and capital was provided at a cheaper rate of interest through nationalised commercial banks. They obtained industrial capital goods and industrial raw materials cheaper because these were subjected to very low tariffs, and they were protected from external competition through an elaborate system of devices. They were offered further subsidies in the form of social and economic overheads, etc. i.e., power, water transport, communications, training, etc.²¹ The tax system in Bangladesh remained regressive, and corporation taxes were studded with large-scale exemptions. New industries were given a tax holiday for

Methods and Procedures, sponsored by the Asian Development Bank, held in Manila, 1985. pp. 10. Also see Yusuf, F. H., op.cit. p. 97.

¹⁷ See the Asian Development Bank and Government of Bangladesh, *Implementation of Privatization Program for Public Manufacturing Enterprises Bangladesh*, Final Report, 1993, p. 16.

¹⁸ For details see *Industrial policy 1975*, Ministry of Industries, Government of Bangladesh.

¹⁹ See *The Bangladesh Observer*, Dhaka, a national daily newspaper, 4 August, 1976.

²⁰ See *The Bangladesh Observer*, Dhaka, a national daily newspaper, 9 December, 1976.

²¹ About 32% of the development outlay was invested in the power, natural resources, transport and communication sectors in 1974-75. It rose to almost 50% in 1977-78. The information is derived from the Ministry of Industries, Government of Bangladesh, 1997.

seven years. The policy thus favoured the emerging business and industrial elite enormously.²²

In 1978, General Zia became politically ambitious and set out to civilianise his rule. He formed a political party called Bangladesh Nationalist Party (henceforth BNP). At this time, Zia needed to mobilise a civilian support base, having received active backing from the coalition of political factions opposed to the Awami League.²³ His new party received support from a section of senior civil servants, the urban middle class, affluent traders, industrialists, ex-owners of nationalised industries, the rural rich and parties and groups opposing the AL's socialist policy.²⁴ This was a very different support base from the AL's lower middle class backers. These diverse interests were held together by political patronage from Zia in the form of bank loans, licenses, and permits and through selling the public enterprises at throw-away prices. Consequently, the private business extended substantial financial support to the BNP.²⁵

Zia's policies were welcomed both by the existing and emerging business elite of the major urban centres in Bangladesh and many of them formally joined the new political party formed by him. For instance, C. Tanvir Ahmed Siddiqui, former president of Bangladesh federation of chamber of commerce and industries became treasurer of the BNP and Minister for Commerce and Trade, Moyeedul Islam, owner of a big industrial house, became a minister and took charge of the financial management of the 1981 presidential election.²⁶ Zahiruddin Khan, president of Chittagong chamber of commerce and industries, and A.K.M. Ziauddin president of Khulna chamber of commerce and industries, became MP's on the BNP ticket; in return, obviously the regime framed privatisation and industrial policy in a way that satisfied these interests as a whole.

At that time, there were two distinctive groups within the business elite, a large group of new generation businessmen who had accumulated wealth during the post-independence period (1972-75) through their ties with the regime and their access to the extraction of wealth from the large public sector and other related economic activities. A second group had accumulated huge wealth during the period of united Pakistan under

²² For details see Hossain, A., and Chowdhury, A., "Fiscal Policy" in Habib Zafarullah et al (eds.), op.cit. pp. 38-67.

²³ See Kochanek, S. A., op.cit. p. 58. Also see Franda, M., op.cit. p. 271.

²⁴ For example, see Alam, Q., "The State: Weak and Fragmented" in Habib Zafarullah (ed.), op.cit. pp. 50-55.

²⁵ See Kochanek, S. A., op.cit. p. 156

²⁶ See The Holiday, Dhaka, a national English weekly newspaper, 9 November, 1984.

the Ayub regime's state-sponsored industrial development strategies of the 1960s. Given its greater economic strength, this second group drew close to the ruling clique faster than the emerging business groups after the political changeover in 1975. Both groups vehemently opposed the nationalisation of industries. By the end of 1975, a wide variety of formal and informal channels of access had developed that permitted considerable business penetration into the small circle of government decision makers who set the industrial policy in general and privatisation policy in particular, and allocated critical scarce resources such as credit, foreign exchange and industrial sanctions.²⁷

Soon after the political changeover in 1975, a group of old businessmen and industrialists had met Zia and demanded the return of their industrial units which had been nationalised by the earlier regime, plus compensation. Accordingly, the government decided that these former owners would be given due compensation. During the late 1970s the government paid Tk. 10 billion to the ex-owners as compensation.²⁸

The change of policy direction was designed less to improve the industrial production than to achieve the regime's short term political gains and to respond to the political pressure of business groups which accumulated capital either during 1960s or between 1972 and 1975. The rising business elite which was the product of the AL's nationalisation policy obviously had good connections with the AL. But it also immediately pledged its allegiance to General Ziaur Rahman and later to his party. Both elites received enormous political patronage through privatisation, but as the old industrial elite expressed their immediate support to the Zia regime, they received greater preferential treatments.²⁹

The Zia regime governed in two distinct phases: it came to power as a military regime and then civilianised its rule. It is therefore interesting to ask whether there was any marked variation in the pursuance of privatisation policy after the civilianisation of the military regime. In fact, there was no fundamental difference between the phases. After civilianisation, Zia continued the gradual process of privatisation as before and channelled resources through the public

²⁷ See *The Holiday*, Dhaka, a national English weekly newspaper, January 2, 1987. Also see Kochanek, S. A., op.cit. p. 234.

²⁸ See Akash, M. M., *Bangladesher Rajniti abong Arthoniti- Shapmprotik Probonotashamoho* (Politics and Economy in Bangladesh- Recent trends) in Bengali, Dhaka, Jatiya Shahittya Prakashani, 1986, pp. 14--36.

²⁹ Interview with Akhter Ali, Ex-Secretary, Ministry of Industries, Dhaka, 04 December 1997.

Development Finance Institutions (DFIs) and Nationalised Commercial Banks (NCBs) to provide loans and equity finances to private sector entrepreneurs.

Throughout its period in power, one of the major arguments behind privatisation was the need to reduce huge public sector losses and to increase private sector investment, thus reducing country's dependence on foreign aid. But we argue that in real terms what actually happened was that the owners of the privatised enterprises purchased the units at discounted prices. In many instances they received credit from nationalised commercial banks to finance their purchases. Even after that they demanded subsidies from the government to offset operating losses.³⁰

After civilianisation, financing institutions, particularly the Bangladesh Shilpa Bank (BSB)³¹ and Bangladesh Shilpa Rin Sangstha (BSRS),³² were directed to advance credit to the private entrepreneurs on a high priority basis, not only to subsidise losses after privatisation, but for modernising or investing further in the industrial units which they bought, or for setting up new industries. Bank loans were advanced to the members of the business groups loyal to the regime mainly upon political considerations and without proper scrutiny by the sanctioning authority. Sobhan observed that,

DFIs were put under severe pressure by the state and its clients to dole out funds without too careful a scrutiny... political influence and administrative fiat became the main arbiter for channelling [public] resources and assets to the private entrepreneurs.³³

But once the loans were obtained, these were mostly invested in the activities which provided quick returns such as general trading, indenting etc.

This ultimately led to large-scale loan defaults and these defaults perpetuated Bangladesh's dependence on foreign aid. Private investment did not increase, which was embarrassing for the regime. One estimate shows that between 1975 and 1981, the private sector received over 95 percent of the total loans disbursed by the Development Finance

³⁰ See also Akash, M. M., *Bangladesher Rajnitiop.cit.*, pp. 20-25.

³¹ Bangladesh Industrial Development Bank- the main function of this bank was to offer industrial credit for encouraging private sector investment.

³² Bangladesh Industrial Credit Corporation- the main function was to offer industrial credit and advisory services to the investors.

³³ See Sobhan, R., *Bangladesh: Problems of Governance*, Dhaka, University Press Ltd., 1993, p. 207

Institutions (DFIs). But private investment in the industrial sector remained remarkably shy during the period.³⁴ The following table (table 4) shows the volume of loans advanced to private and public sector from the two public DFIs.

Table 4: BSB and BSRS Loans to Public and Private Sectors-1975-81
(in million Tk.)

Institutions	Private sector	Public sector	Private sector as a % of public sector
BSB	4785.2	158.5	98%
BSRS	4211.9	217.1	95%

Source: Sobhan, R., Bangladesh: Problems of Governance, Dhaka, University Press Ltd., 1993.

Thus the regime, through its privatisation policy, enabled a group of people to become owners of industrial enterprises. Usually, the purchasers bought those enterprises either with the loans they secured from DFIs or NCBs and with accumulated black money, since the regime assured them that no questions would be raised about the origins of their wealth if their money was invested in the industrial sector before June 1978. Public enterprises were markedly under-priced owing to political considerations. Many of these new purchasers did not have any experience of running industries and as a result, they preferred secretly to sell the existing stock inventories of industries they purchased and in the worse cases, to dismantle the machinery for sale separately.³⁵

Many of those who engaged in these activities had a quick financial return and then declared themselves bankrupt. Once they were accepted by the government as bankrupt owners, they did not have to repay the money they had borrowed from the DFIs. On many occasions, the government was fully aware of these corrupt practices, but in pursuit of short-term political gains, it did not take harsh measures against these people. It was, however, noticeable that after civilianisation, the regime moved somewhat more cautiously than before, because it started facing opposition to privatisation from a section of bureaucracy and public sector workers. Out of the total 255 industrial enterprises privatised, 119 medium and small scale enterprises were divested after the civilianisation.³⁶

³⁴ See Alam, Q., and Rahman, M., "Foreign Assistance and Industrialisation in Bangladesh" *Administrative Change*, Vol. XX, No. 1-2, 1993, p.4-5.

³⁵ Interview with a former Secretary to the Government, who served the Ministry of Industries during the Zia and Ershad eras. Dhaka, June 23, 1996.

³⁶ This information was derived from the Ministry of Industries, Government of Bangladesh, 1997.

The civilianised regime continued divesting public enterprises as usual to party members, supporters and cronies, and they were given preferential treatment in all privatisation transactions. Whereas members of business groups who did not express immediate and explicit allegiance to the regime or who were known to have close ties with the earlier regime were discriminated in the first instance. It is to be noted that the relationship between members of business groups and ruling party always kept changing. One might have a hostile relation with ruling party at a stage, but both parties tended to repair the relationship for their own sake and generally within a short span of time.³⁷

By 1979, 25 percent of the nationalised industries of different sub-sectors had been handed over to private entrepreneurs. Of a total of 785 nationalised industrial units, 130 were returned to the original owners and 125 were sold to the private bidders, while the remainder were kept under the management of the Ministry of Industries.³⁸ Although the government declared its intention to privatise jute and textile mills, in practice did not privatise any of them. This was largely because after forming a political party Zia did not want to antagonise organised jute and textile mill workers who constituted nearly 50% of the organised industrial labour force. Therefore, the government preferred to move very cautiously.

Besides, the regime wanted to build a strong labour front for the party in these two sub-sectors. In the face of immense pressure from the former owners of the jute and textile mills to privatise, the regime stated that the mills would be privatised after the procedural formalities were over. But these were delaying tactics. No sales occurred because Zia's new party was consolidating the position of its labour front called "Jatiyatabadi Sramik Dal" (Nationalist Labour Front). The policy of "go slow" continued until 1980.³⁹

In this effort to maintain a balance between the private and public sectors, the regime pursued conflicting policies which led to large scale chaos and confusion in industrial management of the country.⁴⁰ For

³⁷ Interviews with an ex-Secretary and Member of the Planning Commission of Bangladesh. Dhaka, November 20 and December 5, 1997. Also Interviews with Akhter Ali, ex-Secretary Ministry of Industries, Dhaka, 16, 19, November and also 01, 04 December 1997.

³⁸ See Rahim, A. M. A., "A Review of Industrial Investment Policy in Bangladesh" 1971-77" *Asian Survey*, XVIII, no. 11, 1978, p.1185.

³⁹ Interviews with an ex-Secretary and Member of the Planning Commission of Bangladesh. Dhaka, November 20 and December 5, 1997.

⁴⁰ Interview with Professor Muzaffer Ahmad, former Director, Institute of Business Administration, University of Dhaka. Dhaka, August 16, 1996.

instance, when the second Five-Year Plan (1980-85) was released in 1980, business groups immediately expressed anxieties over references to the public sector as the prime mover of development, and complained that the system of control and regulation of the private sector reflected continued government distrust. Business insisted that the government clarify its policies on the role of the private sector and remove doubts about the safety of private investment; the government also complained about the inadequate response of business to its policy declarations and incentives.

But before the election in 1981, the government brought about further important changes in policy. Its revised industrial schedule declared that with immediate effect, all the abandoned or nationalised industries would be privatised to their previous Bangladeshi owners or to the other interested persons through open auction. This change occurred because the regime's earlier divestiture programme had been widely criticised by important donor agencies and Bangladeshi economists for not maintaining transparency in transactions. Although the government promised to make the divestiture process competitive, even in the new industrial schedule it was stated that if the former Bangladeshi owners of those industries were ready to match the highest bid for their old industries, they would be given preferential treatment. It is important to note that most of the former owners including other aspirant groups of business elite either formally joined the BNP or openly expressed their allegiance to the regime.

But the situation became complicated when those who offered the highest price for industries were not allowed to take them over and former minority shareholders who did not even participate in the bidding won official approval due to their close ties with the regime. A section of business elite thus became demoralised and the government was aware of the political consequences and impact of this move on future political polarisation. The government, therefore, did not overlook the strength and political importance of members of business groups who failed to gain from those privatisation transactions. Within a short span of time the government advanced industrial credit to a significant number of those business elite without proper collateral through the medium of DFIs and NCBs. Many of them later purchased divested industrial units at a throw-away prices. Thus the regime continued to get support of politically important business groups as a whole.

In sum, privatisation and private sector development advanced significantly during the Zia period (1975-81). The policies were basically

liberal, but particularly after civilianisation, they were carried out with more caution. Many formal policy statements were not matured by implementation, and no well-thought-out plan with coherent objectives was ever developed. The following section examines industrial policy and privatisation under the subsequent Ershad regime.

Politics and Privatisation during the Ershad Era

Having deposed an elected president in March, 1982, H.M. Ershad desperately needed to justify his regime. Muhit pointed out that the new rulers had to take dramatic action on the economic front to legitimise the take-over.⁴¹ Within months of taking office, he announced a New Industrial Policy (NIP) to spur economic growth. Ershad followed the path of Zia and extended the process of privatisation further under this policy announced in June 1982. It entailed restricting the scope of the public sector to six basic and strategic industries, and liberalising control and regulation of the private sector. In short, NIP of 1982 included the following features- i.) extensive privatisation of public enterprises, ii.) simplification of industrial investment schedule, iii.) investment advisory services for the preparation of project profile, iv.) simplification of sanction procedures, v.) decentralisation of sanctioning power, vi.) simplifying the licensing procedure for importing raw materials and machines, vii.) easing the terms of debt services.⁴²

Privatisation developed a new momentum after the introduction of martial law but it lasted only for a brief period.⁴³ A total of 186 industrial enterprises were privatised. The most dramatic element of the new policy was the decision to return former Bangladeshi-owned jute and textile mills to their old owners and the expansion of the free list of investments where no sanction was necessary. As reported in a national newspaper, “What Mujib had failed to do, what Zia could not dare to do, this regime is apparently doing that.”⁴⁴ This leads to an obvious question: how did the regime By the time Ershad assumed power, business groups were better organised than before. They openly supported the regime and its new economic policy, and in return the regime promised to extend all possible support and assistance needed by private entrepreneurs.

⁴¹ See Muhit, A. A., “Privatization in Bangladesh”, in Ramanadham, V.V., (ed.) *Privatization- Global Perspective*, London, Routledge, 1993. Pp. 445-448.

⁴² See *the Industrial Policy 1982, Ministry of Industries, Government of Bangladesh*.

⁴³ For details see Alam, Q. M., “Privatisation Policy and the Problems... op.cit., pp. 49-68. See also Humphrey, C.E., op.cit. See also see Islam S. S. op.cit. pp. 165-70.

⁴⁴ See *The Holiday*, Dhaka, a National weekly newspaper, November 5, 1983.

The core supporters of the regime were the army, a section of the civil bureaucracy, the urban and rural rich and large industrialists and traders, as during Zia era.⁴⁵ Ershad actually wanted to build a constituency of support among the business community, particularly those who were affected by nationalisation.⁴⁶ As in Zia's time, the government announced that black money would not be taxed and owners would not be asked about their sources if funds were used either to purchase industries being privatised or to invest in the industrial sector. Private investment increased than before after this announcement and it was estimated that at least 40-50 percent purchasers used unregistered income to purchase their respective firms.⁴⁷

Like his predecessor, Ershad also relied on the civil servants to manage the privatisation process. He picked up Shafiul Azam as his Minister for Industries and Commerce in May 1982. Azam, soon after his appointment, met the members of the Dhaka chamber, and announced that the new government would consult them on issues involving privatisation, trade and commerce.⁴⁸ He assured them that the government was interested in solving the problems of business and promised that the government was prepared to promote, protect and provide incentives to the private sector on an even larger scale than the earlier regime. A representative of business groups stated that,

Time has come to increase the level co-operation between the government and business people. It is a business-friendly government and committed to industrialisation through active participation of the private sector. We are therefore determined to render our strong support to it. The government should consider the privatisation of industries in all sectors including jute and textiles.⁴⁹

It is evident that business groups put pressure on the government, from the day it took over, to privatise the jute and textile mills. The decision to satisfy persistent demands for the return of property was initiated by Shafiul Azam. He believed that the public sector should supplement, not supplant, the private sector, and therefore, urged Ershad

⁴⁵ See Kochanek, S. A., *op.cit.* p. 224

⁴⁶ See Chowdhury, T. E., "Privatization of State Enterprises in Bangladesh (1976-84)", paper presented at Korea Development Institute, mimeo, Seoul, November 1987.

⁴⁷ See *The Holiday*, Dhaka, a national weekly newspaper, October 11, 1985.

⁴⁸ See *The Bangladesh Observer*, Dhaka, a national English newspaper, 24 May, 1982.

⁴⁹ For the statement made by vice-president of the Dhaka Chambers of Commerce and Industries, see *The Bangladesh Observer*, Dhaka, a national English newspaper, 16 August, 1982.

to make a dramatic break with the past. Privatisation, he argued, would help create a favourable investment climate, restore private-sector confidence, and win a strong World Bank endorsement. Actually, that endorsement was necessary because the military regime was criticised at home and abroad for seizing power from an elected government. Besides, without aid from the World Bank, it was not possible to run the country or implement any of the declared policies.⁵⁰

Ershad carried out privatisation with surprising speed during the initial period of his rule. Privatisation of 27 textile mills and 33 jute mills was accomplished within one year. One explanation of this haste was that the regime wanted to implement the policy before the opposition political parties consolidated their position. Ershad was aware that two opposition parties had major trade union support, and once trade unions were politically mobilised with opposition support, it would be difficult to proceed further with the policy. Through quick privatisation, the regime intended to draw the attention of the donor community- whose support was necessary for running the economy.⁵¹ Besides, business elites were the regime's main backers and supporters. By late 1982, a large number of business elites who were loyal to the Zia regime shifted their allegiance, and many of them formally reiterated their strong support to Ershad.

But the privatisation of the jute and textile mills was complicated. For example, the nationality of the former owners had to be determined, which was not simple in an emotionally charged civil war situation. Even former managers who had no claims of previous equity were considered eligible for purchasing shares of mills where they had worked. So were former minority shareholders (who might have been Pakistanis). The valuation of the assets of the mills was controversial, as was establishing responsibility for the considerable liabilities incurred before and during nationalisation.⁵² According to a former Jatiya Party (henceforth JP) MP, for the government privatisation of jute and textile mills was a political obligation, because it pledged to the former owners/ shareholders to return their mills as soon as possible.

In many instances, in its haste the government pressured the parties to agree to transactions which by their very nature were defective. The

⁵⁰ See Sattar, Z., (1989), "Privatizing Public Enterprises in Bangladesh: A Simulation Analysis of Macroeconomic Impacts", *Applied Economics*, 1989, No. 12, pp. 1123-35.

⁵¹ See *The Holiday*, Dhaka, a national weekly newspaper, October 11, 1985.

⁵² See the Asian Development Bank and Government of Bangladesh, *Implementation of Privatization.... op.cit.*, pp. 30-38.

former owners, the government, the BTMC and BJMC and the government owned banks were unable to agree on the amount of the mills' debts or on assigning responsibility for the liabilities. Initially, the former owners refused to accept any existing liabilities, even those which existed prior to nationalisation.⁵³ They insisted that they would have long since liquidated these liabilities if they had owned the firms. No agreement could be reached. As the government was in a hurry to implement the privatisation policy, it forced through the sales and transfers, deferring settlement of the vital debt issue to a later time. Ershad asked the buyers to accept all the liabilities and promised them easy access to bank credit in future.⁵⁴ As a result, in the 1982-83 fiscal year private sector received 79 percent of new bank credit.⁵⁵

During this period, the actual steps of privatisation were largely planned and managed by three senior bureaucrats: Shafiul Azam, who was the Minister for Industries and Commerce and two of his deputies, Shamsul Haque Chisty and Shafiqur Rahman. With Ershad's approval, Azam instructed his deputies to work out details with the former owners. He gave them six months to establish a set of guidelines, to create a procedural mechanism, and to implement the policy. Azam's task force decided to create a four-tier system of committees to privatise 27 textile and 33 jute mills.⁵⁶

The privatisation system consisted of a committee to examine the validity of tenders, a committee to verify the title and nationality of former owners, a working group to evaluate assets and shares, and a Disinvestment Board, which had the final decision-making authority. The terms and conditions which guided the transfers were as follows: a floor price (National Reserve Price, or NRP) was marked out and used as a basis for negotiating with former owners over their bids. The final selling price was NRP or the winning bidder's price, whichever was highest. The successful bidder was to make a down payment of 25 percent before the transfer if the mill was located in a developed area (Dhaka, Khulna, Chittagong. Etc.) or 20 percent if it was in a less-developed area. The balance was to be paid off in 3 equal annual instalments or 4 instalments in less-developed areas. The payment was to begin 24 months after the execution of the Deed of Agreement for sale.⁵⁷

⁵³ See *The Bangladesh Observer*, Dhaka, a national daily English newspaper, 30 April, 1982.

⁵⁴ Interview with Chowdhury, T. E., former Chairman, Board of Investment. Dhaka, September 12, 1996.

⁵⁵ See *The Holiday*, Dhaka, a national English weekly, October 8, 1983.

⁵⁶ 27 textile mills represented approximately 50% of the country's spinning and weaving capacity, and 33 jute mills, accounted for 38% of the country's total jute production. See the World Bank, *Bangladesh-Privatization*.....op.cit.

⁵⁷ See the Government notification, Ministry of Industries and Commerce, September, 27, 1982.

The former owners were required to buy at least 51 percent of the shares of the mill. Previously held shares were supposed to be valued at par or face value, or at the compensation price determined at their nationalisation in 1972. In practice it was the latter which was used. If more shares than those previously owned were needed to reach the required 51 percent, a special “re-valued price” for the additional shares was supposed to be determined. Again, however, in the haste to complete the transactions the government simply used the compensation price for these additional shares. Shares above 51 percent were supposed to be valued at a government determined “market value,” which was higher than par, and these market values were set arbitrarily.⁵⁸

Although the government set out this official implementation scheme for privatisation, the jute and textile mills were sold at a nominal price without following a proper tender procedure. The ex-owners got their units back paying only 10 percent of the estimated value, and borrowing what was needed from the NCBs or DFIs.⁵⁹ It is interesting that before nationalisation, the ex-Bengali owners had had only a 24 percent shares in the jute and textile mills. Of the remaining 76 percent, 58 percent had been borrowed from the government and the other 18 percent had been public equity.⁶⁰ Even though their claim for ownership was only partially valid, they received the entire mill back at throw-away prices. And one estimate revealed that the jute mill owners earned 3030 million Tk. and the textile mill owners earned 1500 million Tk. because of the underpricing and understating of the assets of the mills which were handed back to them.⁶¹

There were clearly anomalies with regard to transfer of public enterprises to the former Bangladeshi minority shareholders. Immediately after the decision of the government was formally announced, 36 cases were filed in the court against the decision by unsuccessful bidders of jute and textile mills.⁶² Those who filed cases

⁵⁸ See Lorch, K., “Privatisation through Private Sale: The Bangladeshi Textile Industry”, in Ramamurti, R. and Vernon, R., (eds.) *Privatisation and Control of State-Owned Enterprises*, The World Bank, Washington, 1993. P. 147

⁵⁹ For details see Alam, Q.M., “Privatisation Policy and the Problems... op.cit., pp. 49-68.

⁶⁰ See Sobhan, R., “Nationalisation of Industries in Bangladesh: Background and Problems” in E. A. G. Robinson and Keith Griffin (eds.) *The Economic Development of Bangladesh within a Socialist Framework*, Macmillan, London, 1974.

⁶¹ See Sobhan, R., Akash, M. M. and Ahsan, A. “Terms and conditions of handing Over jute and Textile Mills” *BIDS Working Paper, 1987 (Mimeo)*.

⁶² See *The Holiday*, Dhaka, a national English weekly, October 8, 1983.

were the highest bidders, but their bids were not accepted. Instead, the government transferred mills to the former Bangladeshi minority shareholders on special concessionary terms and at below market prices. All those cases were later dismissed by the court.⁶³

Why had a group of businessmen and industrialists received preferential treatment from the regime? It is mainly because of the fact that Ershad created a personalised political system. The nature of this system depended on his will, his political and material interest. Decisions taken by Ershad at any time in a person's favour could be reversed on another occasion or shifted to a different person upon political considerations. As Sobhan observed,

Everything depended on the nature and dynamic of the prevailing relationship of a person with the President. He could send for any file and pass orders to suit his whim without consultation of the concerned minister or civil servant. He or his wife could call banks in the middle of the night to have the overdraft of a particular businessman renewed or legal proceedings against a defaulter held in suspense.⁶⁴

Besides, the former shareholders or old business elite were very powerful in economic terms. Over the years, they had opposed the former AL government's nationalisation policy. After the political change of 1975, they had openly showed their allegiance to the Zia regime and later to Ershad after 1982. As Ershad sought their support while civilianising his rule, a process which began in 1983, the members of business group took advantage of the political imperatives of the regime, and put pressure to get their mills back on the one hand and to carry out more privatisation programmes on the other.⁶⁵

Between 1983-85, the regime sold two nationalised banks to the private sector. The people who purchased them obtained loans from the DFIs and NCBs to pay for their equity share. The government also allowed nine private banks to operate. The number of private sector banks has increased significantly over the years, so by the year 1995 there were 21.⁶⁶ Most of the promoter directors of these private banks had been identified as bank loan defaulters before setting them up. But by using their personal, social and political connections they managed

⁶³ See *The Bangladesh Observer*, Dhaka, July 17, 1984.

⁶⁴ See Sobhan, R., *Bangladesh: Problems....* op.cit., pp. 52-53.

⁶⁵ See *The Holiday*, Dhaka, an English weekly news paper, August 13, 1993. See also Akash, M. M., *Bangladesher Rajniti abong Arthoniti....* op.cit., 1986.

⁶⁶ See *Statistical Year Book of Bangladesh*, Bangladesh Bureau of Statistics, Ministry of Planning, Government of Bangladesh, 1986.

to get required approval from the Bangladesh Bank to open private sector banks.⁶⁷

During the Ershad era, the patronage distribution system to party cronies through privatisation was so deeply rooted that in some instances a buyer's demand-driven approach was adopted by the government, instead of the government selecting the industrial units to be sold or transferred, purchasers were given unlimited flexibility to choose the units they wanted to buy.⁶⁸ Within sixteen months of Ershad's assumption of power, twenty one medium-scale units were handed over to the private sector in this manner. The average value of these units was 32.6 million Tk., and 78 percent of them were making profits.⁶⁹ After privatisation, however, 80% of them suffered production and financial losses. Inexperience and mishandling of industries by owners were among the main reasons which contributed to these losses.⁷⁰ The prices paid for those enterprises were surprisingly low. It is widely held that large-scale under-pricing occurred upon political considerations.⁷¹ One estimate suggests that the total sales price of fixed assets of 498 industrial enterprises until 1984 amounted to Tk. 1733 million.⁷² Sobhan and Ahsan estimated the net value of 162 privatised industrial enterprises they looked at to be Tk. 8500.5 million.⁷³

Besides, a majority of the owners secured credit from the NCBs or DFIs to purchase them. But many of the buyers deliberately defaulted on the payment of instalments, but the government did not take any serious measures against them. One estimate suggests that between 1972 and 1985, 535 large, medium and small-scale industrial units had been privatised. The aggregate sale price of these units amounted to 190.50 crore Tk. The purchasers of the privatised units paid only about Tk. 62 crore (about 36% of the total sale price) and the outstanding amount of realisable dues from the owners amounted to Tk. 128.50 crore (about 64% of the total) in 1985.⁷⁴

⁶⁷ See *The Ekota*, a Bengali weekly newspaper, Dhaka, 13 April, 1986.

⁶⁸ Interview with Akhter Ali, ex-Secretary in the Ministry of Industries, Dhaka, November 16, 19, and December 01, 04, 1997.

⁶⁹ See Sobhan, R. and Ahsan, A., *Disinvestment and Denationalisation : Profile and Performance*, Dhaka, Bangladesh Institute of Development Studies (BIDS), 1984.

⁷⁰ See *The Holiday*, Dhaka, a national English weekly, September 5, 1984.

⁷¹ See Rahman, M., and Haque, A., *Dhanik Gosthir Lootpater Kahini* (Story of Pillage by the Rich.) in Bengali, Dhaka, Ekata Prakashani, 1987. See also Akash, M. M., *Bangladesher Rajniti*op.cit. See also Siddiqui, K. et al., *Social Formation in Dhaka City*, Dhaka, University Press Ltd., 1990. See also Sobhan, R. and Ahsan, A., op.cit., 1984.

⁷² See Chowdhury, J. A., *Privatization in Bangladesh*, Institute of Social Studies, The Hague, Netherlands, Working Paper No. 92, 1990.

⁷³ See Sobhan, R., and Ahsan, A., op.cit., 1984.

⁷⁴ See *The Holiday*, Dhaka, an English weekly newspaper, October 11, 1985.

In late 1984, when Ershad decided to form a political party called “Jatiya Party”, he turned to the business groups which made “significant financial contributions to the new party”. A large number of the members of the business group formally joined the JP. But given the relative economic position and links with the government, the members of the old business group were in a position to turn most decisions in their favour. Those who showed direct allegiance to the regime received special treatment.⁷⁵ However, the regime also took a number of steps to attract the support of the businessmen and industrialists in general and continued to offer abundant benefits to the rising business groups in terms of advancing new industrial credit and writing-off old ones. According to a business leader,

We feel comfortable to negotiate with this government. The government has extended enormous business opportunities, it understands the problems of business groups. This relationship of mutual understanding and support must go on...⁷⁶

However, when the civilianisation process began, the pace of the privatisation programme slowed. Ershad’s NIP lost momentum by mid-1984 as opposition grew against the regime and its new policies. Public sector trade unions became increasingly militant in demanding a halt to further privatisation, and the political opposition became more vocal in denouncing Ershad’s attack on the public sector. When martial law was lifted in 1985, opposition to privatisation increased further and Ershad had to become more sensitive to the opposition. This made it difficult for the government to resolve the controversy over already privatised mills’ debts and to confront labour union leaders in their fight against dismissals and wage cuts, and for their own control of the mills. The AL and its allies promised to reverse these policies if they came to power. The BNP’s chairperson Khaleda Zia accused the government of using the policy to its political advantage and also for “deliberately under-pricing public enterprises to reward its allies”.⁷⁷

In the face of political opposition, the government then proceeded very cautiously with privatisation. Although 16 public sector units were identified as candidates for privatisation, only six were actually sold after the RIP was announced in 1986. The opponents alleged that these government actions were designed to concentrate wealth in the hands of the few at the expense of the citizenry at large, and charged that

⁷⁵ See *The Bangladesh Observer*, Dhaka, an English national daily newspaper, October 10, 1984.

⁷⁶ See *The Holiday*, Dhaka, an English weekly newspaper, November 9, 1984.

⁷⁷ See *The Holiday*, Dhaka, an English weekly newspaper, September 26, 1986.

privatisation had not demonstrated any benefits. Sheikh Hasina Wajid, the leader of the opposition AL, alleged that a series of train accidents were deliberate and part of a government conspiracy to privatise the Bangladesh Railways.⁷⁸ The jute and textile workers were on the streets protesting against privatisation. A section of the bureaucrats of the public sector corporations demanded an end to privatisation. Both the public sector workers and bureaucrats threatened complete work stoppages if the government continued the programme.

As political pressure began to build up, Ershad became hesitant and uncertain. Privatisation was halted, and the government shifted its emphasis to liberalising the regulation of private investment.⁷⁹ The government's new policy contained several key elements. First, it shifted emphasis away from outright sale to partial privatisation of public sector industries. Second, it redefined the scope of the public sector by dropping the concurrent list and increasing the number of areas reserved for the public sector from six to seven. Finally, it promised to streamline the entire regulatory process, and offered increased incentives for establishing industries in less developed areas. Overall the declaration attempted to emphasise implementation, privatisation and liberalisation of the system of control and regulation of the private sector.

Shares of the public industrial enterprises were offered for public subscription through the country's lone stock exchange from 1987 onward. The government moved rather rapidly to unload the shares in public enterprises and framed the legal coverage for facilitating the unloading of the shares of enterprises nationalised in 1972.⁸⁰ It was decided that a total of 49 percent shares of the public enterprises were to be offered for public subscription in phases. The rest were to be controlled by holding companies. 15 percent of the shares would be reserved for employees of the respective enterprises. This was done to avoid the anticipated workers' resistance to the process.

This holding company strategy was politically highly convenient for the regime. Through it, the government sought to win over all the contending interests. While the donors and business groups continued to support privatisation, the government could not overlook the growing workers' dissatisfaction and the resentment of a section of the bureaucracy.

⁷⁸ See *The Tide*, English Magazine, Dhaka, 16 February, 1989.

⁷⁹ See Baxter, C., "Bangladesh in 1990: Another New Beginning?", *Asian Survey*, 31, No. 2, pp. 146-52, 1991.

⁸⁰ See *The Holiday*, Dhaka, a national weekly newspaper, January 2, 1987.

The holding company approach eased the regime's political discomfort. The donors appreciated the policy because, "a kind of privatisation has taken place".⁸¹ Bureaucrats in public corporations were reassured that 51% of the shares of their firms were to remain under their control. The workers in general approved the move, as 15% of the shares were reserved for them. Business groups were fairly satisfied as they still could buy 34% of the shares being unloaded and because of the government's commitment to a further credit programme for them through NCBs and DFIs.⁸²

Various other benefits to business followed. Approval and sanctioning of industrial loans were simplified. Private sector access to foreign exchange was increased. The government also established a Board of Investment in 1989 to provide investors with a one-stop service. But despite all this, the private investment remained low, industrial sector' performance was as dismal as before.⁸³

During this period, senior civil and military bureaucrats distributed patronage to friends and relatives. Many helped business groups obtain industrial credit from DFIs.⁸⁴ Much of this was not re-paid, and many debts were written off. As of June 1990, defaults on loans from the DFIs stood at Tk. 10.5 billion. 20 business houses owed Tk. 457.5 million to BSB and 24 houses, mostly with the same owners, owed about Tk. 670.4 million to BSRS.⁸⁵ As Siddiqui and others noted, "in recent years, perhaps the most important way of getting rich in Bangladesh has been to defraud and permanently default big loans taken from nationalised commercial bank and DFIs."⁸⁶ The manner in which privatisation was undertaken served to minimise short-run costs, especially at the political level, at the expense of long term economic effectiveness.⁸⁷

The extensive plunder of nationalised industries which had earlier created a rising capitalist class was now followed by another phase of

⁸¹ Interview with a senior official of a donor agency. Dhaka, July 22, 1997.

⁸² See *The Far Eastern Economic Review*, July 25, 1985. See also *The New Nation*, Dhaka, an English national daily newspaper, April 27, 1987

⁸³ Interview with Chowdhury, T. E., former Chairman, Board of Investment. Dhaka, September 12, 1996.

⁸⁴ See *The Bhorer Kagoj*, Dhaka, a national Bengali daily newspaper, August 21, 1995.

⁸⁵ See Sobhan, Rehman, 'Introduction' in Rehman Sobhan (ed.) *Debt Default to the Development Finance Institutions*, Dhaka, University Ltd., 1991. p. 5.

⁸⁶ See Siddiqui, K. et al., *Social Formation ...op.cit.*, p. 192.

⁸⁷ For a similar interpretation on this see Lorch, K., "The Privatization Transaction and its Longer-term Effects: A Case Study of the Textile Industry in Bangladesh" mimeo, Cambridge, Mass., Harvard Institute of International Development, USA.

plunder through privatisation under Zia and Ershad. Particularly during the Ershad era, industries which were privatised were not purchased with purchasers' own capital.⁸⁸ They were virtually doled out to them on condition that they would return the extremely discounted stipulated price out of the profits of such industries. The new owners had little interest in the painstaking, complicated and risky process of production. Their real interests lay, in accumulating money which had been then used as commercial capital for quick and large profits. Many sold assets including land, machinery, spare parts, raw materials etc. to pay the stipulated price of the industrial units and to amass money which had until then been used as commercial capital.

Privatisation was undertaken ostensibly to make industries more productive, but instead of increasing production the new owners tended to dismantle them.⁸⁹ A study in 1986, indicated that production in the privatised jute mills fell by more than in those which remained in the public sector. In the cotton textile mills it was found that privatised firms had, on average, lower output levels and worse financial performance.⁹⁰ The government's auditors assessing assets and liabilities of privatised mills found that while the bank loan liabilities had increased consistently since the mills were taken over, the asset level was lower in most cases than before.

In sum, Ershad followed the same path as his predecessor—building a support base and party out of political patronage through privatisation. This patronage extended downwards into society and was intended to buy political support amongst businessmen, the military and civil bureaucrats, political activists and workers. This helped to solidify the regime's political position and prolong its time in power. The following section looks at privatisation under the Khaleda Zia regime. The analysis identifies similarities and differences between military-cum-civilian regimes and her popularly elected government.

Politics And Privatization During The Khaleda Zia Era

The BNP formed the government in 1991 under the leadership of Begum Khaleda Zia. In 1991 election, out of country's 300 parliamentary seats, the businessmen and industrialists managed to capture about 177 seats

⁸⁸ See Umar., B., *General Crisis of the Bourgeoisie in Bangladesh*, Dhaka, Papyrus Prakashanee, 1986, p. 37.

⁸⁹ See Umar, B., *General Crisis of the Bourgeoisie in Bangladesh*, Dhaka, Papyrus Prakashanee, 1986, p. 36.

⁹⁰ See Sobhan, R., and Mahmood, S. N., "*The Economic Performance of Denationalised Industries in Bangladesh: The Case of the Jute and Textile Industries*", Dhaka, *Bangladesh Institute of Development Studies*, mimeo, 1986.

which constituted approximately 59 percent of the total.⁹¹ The dominant presence of industrialists, businessmen and traders in the ruling party and parliament had given the private sector a stronger voice. Both before and after the election many industrial and business elite formally joined the BNP. Soon after forming the government, Khaleda Zia announced that her government was committed to free market economy, and as a part of that privatisation process would go on. While addressing country's businessmen and industrialist in 1991, she stated that privatisation was the only way to achieve rapid industrial and economic growth.⁹²

The government announced an industrial policy in July 1991 which reiterated the objectives of the NIP and RIP for achieving a rapid expansion of the private sector and for its transformation into a more competitive market economy. To solve the existing problems of the industrial sector, some additional institutional and policy changes had been proposed in the 1991 industrial policy. The major stated goal of the 1991 industrial policy was to increase efficiency and productivity in the industrial sector by transferring public sector industries to private sector and thus reducing the state intervention. The government emphasised the need and importance of privatisation. The industrial sanctioning procedure had been further simplified. No approval was necessary to set up industries with entrepreneur's own fund, or with funds from private banks or private financial institutions. Further, protection of foreign investment from nationalisation, repatriation of proceeds from sale of shares, profits and dividends, tax exemption on royalties, on interest, on foreign loans and on capital gains from the transfer of shares etc. was assured.⁹³

Khaleda Zia appointed Zahiruddin Khan- an industrialist- as the Minister for Industries and Commerce. She also appointed Morshed Khan-another multimillionaire as a special envoy to the Prime Minister. Khaleda Zia stated that those appointments were given to bridge the gap between the government and the business groups. In his first speech, the Minister for Industries and Commerce argued that “state’s industrial policy was a reflection of the political conditions of the country’ and ‘government was ready to provide necessary assistance to the private entrepreneurs to foster industrial growth”.⁹⁴

⁹¹ See Maniruzzaman, T., (1992). "The Fall of the Military Dictator: 1991 Elections and the Prospects of Civilian of Civilian Rule in Bangladesh," *Pacific Affairs*, Vol. 65, No. 2. pp. 203-224.

⁹² See *The New Nation*, Dhaka, a national weekly newspaper, July 12, 1991.

⁹³ For details see *the Industrial Policy 1991, Ministry of Industries, Government of Bangladesh*.

⁹⁴ See *The Bangladesh Observer*, Dhaka, an English national daily newspaper, June 14, 1991.

Morshed Khan stated that, the government was committed to privatisation and provision of complete reliance on market, it [government] would take appropriate measures immediately for off-loading public enterprises. It was important that business groups and the government work hand in hand.⁹⁵ And towards this end, the industrial development strategies outlined by the government aimed at fulfilling the aspirations of those social classes, especially the urban upper and middle classes, that were instrumental in putting the new regime in power.⁹⁶

Interestingly, BNP won the 68% of the total urban constituencies in 1991 election and among the 300 elected members of the parliament 75% were permanently based either in the capital or in the other major cities of the country.⁹⁷ A majority of the MPs came from business or industrial background, they all were in favour of privatisation in general. Similarly, the Finance Minister expressed his strong support to privatisation and private sector development.⁹⁸ He denounced the earlier government for halting privatisation and also for making the privatisation process non-transparent. It is to be noted that during 1987-90, there had not been any privatisation at all.⁹⁹ It is therefore interesting to see how the privatisation process and related affairs were managed by the regime and to look at how it continued to provide fruits of privatisation to its cronies.

By 1991, there was heavy donor pressure on the government to carry-out the privatisation programme without any further delay. The donors suggested that the government should take necessary steps to bring about financial discipline in the banking sector and strive to recover the outstanding bank loans from businessmen and industrialists. Initially, the government prepared a preliminary list 42 public enterprises for privatisation. In a parliamentary session in 1992, the Finance Minister stated that government would strongly proceed with privatisation, but in the first instance attempts would be taken to recover defaulting bank loans— which was the result of earlier governments' policy privatisation and private sector development. He disclosed that the amount of defaulting bank loans was Tk. 81.53

⁹⁵ See *The Bangladesh Times*, Dhaka, an English national newspaper, July 23, 1992.

⁹⁶ See Baxter, C., "Bangladesh in 1991- a Parliamentary System", *Asian Survey*, Vol. XXXII, No. 2, February, 1992. pp. 162-167.

⁹⁷ Information derived from the Election Commission, Government of Bangladesh, 1997.

⁹⁸ See *The Holiday*, Dhaka, a national weekly newspaper, October 23, 1992.

⁹⁹ For example see The World Bank, *Privatization Experience in Bangladesh-1991-96*, Dhaka, 1997.

billion, representing about one third of the total outstanding bank loans.¹⁰⁰

But the government actually did not take any adverse actions against bank loan defaulters. It instead of trying to recover the overdue loans, issued a notification to NCBs and DFIs to reschedule these loans further. Upon the government's order, NCBs and DFIs waived interest on outstanding industrial loans on 2632 “sick” industrial units.¹⁰¹ Most of the owners of those sick units had close ties with the regime. The directors of the Bangladesh Shilpa Bank (BSB), after sudden visits to number of mills set up with funds from the bank, discovered that most of the mills which were classified as “sick” were actually doing a roaring business. One of the textile mills they visited was found to be running in three shifts. Even the Finance Minister was well aware that many of the units which demanded interest waivers were not “sick”. He admitted in parliament that “our industries are sick but the owners of those industries are very healthy.”¹⁰²

By the time Khaleda Zia came to power, the amount of overdue loans from purchasers of privatised units had risen to its highest level. The Public Accounts Committee reported in 1992 that net loss of Bangladesh Textile Mills Corporation (BTMC) from 1972 to 1991 was TK. 2.2 billion and that Tk. 220 million was still owed by purchasers of the mills. As a result, BTMC was found to owe Tk. 2.7 billion to NCBs and DFIs. As far as the privatised jute mills were concerned, about two-thirds of the total sale price was owed by the buyers of the mills in 1992. The Public Accounts Committee blamed the “denationalisation cells” in the jute and textile ministries for this state of affairs and pointed out that no effective action was taken to recover money owed to the BJMC and BTMC or to sign any agreement with the owners of privatised mills about the payment of their liabilities.¹⁰³

Evidently, the report of the Public Accounts Committee embarrassed a number of members of parliament. The report, however, failed to activate the government in recovering the outstanding bank loans from the owners of privatised enterprises. According to a senior civil servant, the public accounts committee performed its routine work knowing fully well that government would not implement its recommendations. The situation

¹⁰⁰ See *The Holiday*, Dhaka, A National English weekly, November 2, 1993.

¹⁰¹ These information were derived from the Banking Division, Ministry of Finance, Government of Bangladesh, 1997.

¹⁰² See *The Holiday*, Dhaka, a national English weekly, November 21, 1992.

¹⁰³ See *The Public Estimate Committee Report*, 1992, Ministry of Law and Parliamentary Affairs, Government of Bangladesh, 1992.

remained largely where it was. All of these had little real impact on overall government-business links. Indeed, business groups were demanding further concessions and also quick sanctions of credit, either to set up new industrial units or to maintain old ones. The government had also assured them with pledges of further bank credit and forthcoming privatisation packages.¹⁰⁴

This left the regime caught between the donors on the one side and business groups on the other. The donors put heavy pressure on the government to prepare a list of the bank loan defaulters and to give them an ultimatum to repay their outstanding loans. The business groups, with their clout, resisted this. The Minister for Industries and Commerce upon insistence of donors, announced that no further loans would be advanced to those who had not paid outstanding debts.¹⁰⁵ Strikingly, the government published the defaulters' list in early 1992. The business community reacted sharply to threats of punitive action against the alleged perpetrators of economic crimes. Many members of business group felt betrayed.¹⁰⁶

It is interesting to ask, how could the regime move against defaulters when there was a parliament dominated by business groups? First, it was relatively easy because the regime was in its initial phase of rule, secondly, it was easy to go after most defaulters because they had obtained bank loans during the Ershad era and had close links with the previous regime; thirdly, the government could not avoid donors' insistence; and finally, it was not politically costly step for the regime. Rather, after the publication of the list, it received the direct and active support of those loan defaulters. In this sense it was a politically suitable strategy. But the situation complicated when there were a few names in the defaulters list who belonged to the ruling party, and when they were named, there were wide repercussions within the ruling party. As the crisis within the party deepened, the government announced that the publication of the lists was done under heavy donor pressure.¹⁰⁷ To soothe anger within the party and business community

¹⁰⁴ Interviews with Akhter Ali, ex-Secretary Ministry of Industries, Dhaka, 16, 19, November and also 01, 04 December 1997.

¹⁰⁵ Interviews with Akhter Ali, ex-Secretary Ministry of Industries, Dhaka, 16, 19, November and also 01, 04 December 1997

¹⁰⁶ See *The Holiday*, Dhaka, a national English weekly, November 21, 1992

¹⁰⁷ Interview with a well informed business leader of Dhaka Chamber of Commerce and Industries. Dhaka, September 1, 1996. Many showed their allegiance because they thought that the government would overlook their outstanding loans and also that they would have direct access to ruling party to manipulate the government decision.

as whole, the government pledged to provide extra-incentives to the business community in the form of bank loans, writing-off outstanding loans, and rescheduling the loan repayment terms and conditions.¹⁰⁸

The government convinced donors that private jute mills' accumulated debt needed to be restructured to restore commercial viability.¹⁰⁹ It thus decided that the banks would write off one-third of the private mills' total debt and reschedule the remaining two-thirds over 15 years. With zero percent interest and no principal repayment during the first three years, the interest rate was fixed at 3 percent and with principal repayment in gradually rising instalments.¹¹⁰ Similar concessions were also pledged for private sector textile mills. Evidently, the decision to waive interest on some loans angered those who had kept up with their payments.¹¹¹

On the privatisation front the government adopted a delaying tactic. It was going at a snail pace. As a result, not a single one of selected 42 enterprises was privatised even within a year and a half. This occurred despite promises to privatise enterprises worth Tk. 500 million in 1991-92. Moreover, under pressure from unions, the government made an agreement with the Sramik Karmachari Oikka Parishad (SKOP)¹¹² and the jute and textile mills workers unions that no privatisation would be carried out without their concurrence. Donors' pressure for privatisation mounted again, and the World Bank was assured in mid-1992 of the government's commitment to it. The government stated that it was charting out a plan for the jute and textile industries, but also feared that it would be difficult to proceed much further.¹¹³

In mid-1992, donors particularly the World Bank and ADB were particularly unhappy with the existing pace of privatisation and insisted on improvements in institutional arrangements for privatisation. As a result, the government formed the Inter-Ministerial Committee on Privatisation (ICOP)- to co-ordinate the process.¹¹⁴ But during the two

¹⁰⁸ See *The Holiday*, Dhaka, a national weekly, May 19, 1995

¹⁰⁹ See The World Bank, *the Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Credit in the amount of SDR 175 Million to the People's Republic of Bangladesh for a Jute Sector Adjustment Credit*, Washington, January, 1994.

¹¹⁰ See the Asian Development Bank and Government of Bangladesh, *Implementation of Privatization Program for Public Manufacturing Enterprises Bangladesh*, Final Report, 1993, p. 27.

¹¹¹ See *Economic Intelligence Unit (EIU), Country Report on Bangladesh*, No. 1, 1992.

¹¹² An alliance of workers and employees.

¹¹³ See *The Bangladesh Observer*, a national daily newspaper, Dhaka, March 19, 1992.

¹¹⁴ See The World Bank, *Bangladesh: Privatization and Adjustment*, The World Bank, Report No. 12318 BD, March, 1994.

years its existence, it could not deliver anything. ICOP turned out to be a mere advisory body to the government. All it could do was to identify about 50 out of 150 SOE manufacturing units for privatisation.¹¹⁵

Actually, rapid progress on privatisation was impossible because the BNP cabinet was divided on the programme from the beginning. Most cabinet ministers held the Finance Minister responsible for the trouble it caused during the transition period. So a number of ministers dragged their feet on implementation. Opposition leaders, despite their support for the concept of a market economy, threatened an agitation if the public sector units were privatised and workers retrenched. The new regime wanted to avoid antagonising industrial labour,¹¹⁶ and it was determined to deny the opposition any issue which trigger demonstrations.¹¹⁷ So it went slow on privatisation.

In early 1993, the government dissolved the 'ICOP' and formed the Privatization Board headed by a senior retired bureaucrat. It was supposed to expedite privatisation programme, but it soon ran into snags like 'ICOP' due to political manipulation of the ruling politicians and a section of bureaucrats. It could dispose of only four state-owned industries during the period 1993-94. The government came under increasing pressure from the World Bank, ADB and other donor agencies to quicken the pace. The Privatization Board was brought under the office of Prime Minister to avoid confusions and ostensibly for quick disposal of cases.¹¹⁸

However, the process slowed down substantially after this change. Why did it happen? According to its former Chairman, the board had little real autonomy and was vulnerable to frequent political interference.¹¹⁹ The government often issued confusing and controversial directives about the functioning of the board, and mainly in response to various lobbyist,¹²⁰ vacillating under pressure from

¹¹⁵ See The World Bank, *Privatization Experience in Bangladesh, 1991-1996*, Dhaka, 1997.

¹¹⁶ See *The daily Star*, Dhaka, January 11, 1991.

¹¹⁷ Interview with a well informed business leader of Dhaka Chamber of Commerce and Industries. Dhaka, September 1, 1996.

¹¹⁸ Interview with a former Chairman, Privatization Board, Government of Bangladesh. Dhaka, August 24 and September 3, 1996.

¹¹⁹ Interview with a former Chairman, Privatization Board, Government of Bangladesh. Dhaka, August 24 and September 3, 1996. Also, Interview with Ahsanul Hye, Director, Privatization Board, Government of Bangladesh. Dhaka, July 12, 15, and August 11, 1996.

¹²⁰ Interview with a Director of the Privatization Board, Government of Bangladesh. Dhaka, September 8 and 9, 1996.

different groups. On number of occasions, members of parliament upon political consideration strongly intervened to slowdown privatisation of enterprises located in their constituencies. For example, after the announcement of initial list of enterprises for privatisation, nine members of parliament including three ministers placed unofficial embargo upon the board to “go slow” on privatisation. Some of them through various political channels wanted to have names of the enterprises dropped from the privatisation list for a certain period. They were in favour of privatisation, but wanted this to be done at a politically suitable time.

Many members of the business groups however became frustrated at such delays. There were members of parliament and ministers who were in favour of immediate privatisation of declared units because they had direct or indirect stakes. Some senior civil servants based in and outside the board seemed to be steering the process, many of them had close ties both with the politicians and business elite. But the Prime Minister was the ultimate authority to make decisions on privatisation. According a former minister, Khaleda Zia used to consult only a trusted small circle of her choice within the cabinet while making decisions on privatisation. Sometimes the relative strength of lobbyists determined the pace of privatisation, but anticipated political consequences of privatisation has always been the most important consideration.

Clearly, the political imperatives of the ruling party contributed to the slowing down of privatisation. In 1994 yet again donors expressed their dissatisfaction over government’s policy of “go slow” on privatisation. The Minister for Industries indicated poor responses from purchasers were among the main reasons for slower pace. On the other hand, the purchasers argued that there were too many private individuals interested, but enterprises to be privatised were overvalued and did not reflect the market price. They pointed out that many were not interested simply because of the potential labour crisis following privatisation as the purchasers were aware of government’s leniency towards unionised workers.¹²¹ They believed that it was part of the government's delaying tactic. The government deliberately determined an inflated sale price—because over-valuation would lead to a poor response from the buyer, forcing a re-tender for sale of industrial units. For example, the Privatization Board had to float tenders three times

¹²¹ Conversation with A. M. Shawkat Ali, former Secretary, Ministry of Jute, Government of Bangladesh. Dhaka, September 16, 1996.

for selling Madaripur and Noakhali textile mills.¹²² This tactic was purposely applied to avoid political controversies which might arise out of privatisation.

However, according to a Director of the Privatization Board, “prices quoted by interested bidders were too low and that caused delay in privatisation”. For example, the prices quoted by the bidders for Manwar and Purbachal jute mills were unreasonable compared to the prices set by the Privatization Board which led to re-tender for sale of these units and eventually made privatisation of those mills delayed. When asked why did the government re-set the prices of the units well below the price originally demanded during re-tender? It was stated that the government had to lower prices because of the poor responses from private entrepreneurs. Besides, net worth of the most of the mills was negative and in many cases prices fixed by the consultants were not reasonable.¹²³

Clearly, substantial under-pricing took place during the Khaleda Zia era. As a result, the net value of all privatised industrial enterprises entailed a real transfer of several thousand millions of Tk. from public to private ownership. This will certainly have serious long-term economic and distributional consequences.¹²⁴ The stand of the government on this point was that it followed certain principles of valuation. Current assets were valued at book value, and these prices were normally taken as the minimum floor prices for the tender. In principle, enterprises were sold at the highest price bid or at the minimum floor price, whichever was higher. It can be argued that that there was generally an under-valuation of the enterprises which were divested, and that a considerable number of the industrial enterprises now owned by the richest were acquired at throw-away prices.¹²⁵

¹²² This information was derived from the Privatization Board, Government of Bangladesh. Dhaka, 1996.

¹²³ Interviews with Ahsanul Hye, Director, Privatization Board, Government of Bangladesh. Dhaka, July 12, 15, and August 11, 1996.

¹²⁴ It has long term implications on the following grounds: (I) from the point of view of social justice and concentration of wealth which may aggravate income distribution, (ii) there is no longer public accountability for these assets as was the case under public ownership (iii) if concentration of wealth does not generate productive forces i.e., employment, investible surplus, etc., this is a loss to the economy as a whole. See for example, Sobhan, R., Akash, M. M. and Ahsan, A. “*Terms and conditions of handing Over jute and Textile Mills*” BIDS Working Paper, 1987 (Mimeo).

¹²⁵ Maniruzzaman observed that the emergence of this new class was facilitated by the policy of patrimonialism followed by successive governments in Bangladesh. Under this system the government leaders used national wealth

One of the other problems of the privatisation process during the Khaleda Zia era can be attributed to the psychological tug of war between the Ministry of Industries and the Privatization Board which also slowed the process down. There was a lack of co-ordination between these two organs of government, the reason mainly being the conflict between bureaucrats within them.¹²⁶ After the establishment of the Privatization Board, the authority of the Ministry of Industries had been substantially curtailed, and the board was placed under the Prime Minister's Secretariat.

Public industrial units which had been recommended by the Ministry of Industries for privatisation were dropped from the final list prepared by the Privatization Board. In many cases, the Board included industries in the list which had been excluded by the Ministry of Industries.¹²⁷ For example, the Ministry had recommended 30 industries to be privatised during the 1994-95 fiscal year, but the Board later dropped 12 industrial units from the list and decided on 37 units to be privatised in 1995, and one in the following year. The Ministry decided to suspend temporarily the sale of 9 industrial public industrial units, but the Board decided later to privatise 6 of them during 1996.¹²⁸

The Privatization Board in early 1995, floated tenders for the sale of 37 industrial units of various sub-sectors, out of which 21 tenders were found to be valid. Then these cases were sent to the cabinet office for approval. But as usual political tensions existed in the country at that particular time, the cabinet office acted cautiously and only approved 13 cases for transfer. The Finance Minister then stated that "half done reform was worse than no reform at all". But he admitted that the uneasy political situation in the country made it difficult for the government to implement privatisation and reform in general.¹²⁹

and resources to enrich themselves, creating an affluent class through the massive transfer of public wealth to private hands. For discussion on this see, Maniruzzaman, T., "The Fall of the Military Dictator: 1991 Elections and the Prospects of Civilian Rule in Bangladesh", *Pacific Affairs*, Vol. 65, No. 2, 1992, pp. 203-224.

¹²⁶ Interview with a former Chairman, Privatization Board, Government of Bangladesh. Dhaka, August 24 and September 3, 1996.

¹²⁷ Interviews with Ahsanul Hye, Director, Privatization Board, Government of Bangladesh. Dhaka, July 12, 15, and August 11, 1996.

¹²⁸ See *The Janakantha*, Dhaka, a national daily, April 7, 1995.

¹²⁹ This was said by M. Saifur Rahman, (the Finance Minister of the Khaleda regime) on May 17, 1995 in a seminar organised by the Centre for Policy Dialogue, Dhaka. His comments were published in *The Holiday*, Dhaka, a national weekly, May 19, 1995.

Privatisation stalled because the government faced enormous resistance from the opposition parties, unionised workers and a section of the bureaucrats. From mid-1994, opposition parties declared agitational programme against the government. Opposition leaders, including Awami League chief Sheikh Hasina supported workers' demand for immediate stopping of privatisation programme.¹³⁰ As the political pressure from opposition was on the rise, Jute Minister then rhetorically announced that jute mills were making profit and therefore, the necessity to sell them to the private sector did no longer exist.¹³¹ The jute and textile ministers announced that no new public sector units would be sold to the private sector. Obviously, they were giving in to the pressure from these interests.

These announcements surprised the donors and business groups. Particularly, the donor became sceptical about government's intention, because public sector jute and textile mills were making huge losses every year and they depended on government subsidies. Members of business groups met the Prime Minister in late 1994 and demanded quick actions to implement privatisation programmes and also to carry out other reforms to create an enabling business environment for private entrepreneurs. The business groups were told that the opposition parties in conjunction with ally bureaucrats and labour leaders were creating stumbling block, but the government would go ahead with privatisation programme at any cost.

The World Bank then insisted that as agreed upon earlier production in 5 jute mills be suspended immediately even it was fraught with political risks. The government explained it to the World Bank review mission in early 1995 that the jute mills could not be closed down since it could put the government in a politically embarrassing situation. However, the government came up with further privatisation plans to please donors and country's business groups, interestingly, just before the Bangladesh's aid consortium in Paris in 1995 and identified a total of 64 industrial units for privatisation.¹³²

Over the years, in order to obtain much needed foreign aid, successive regimes had tended to take a pro-market stance, at least outwardly. They were under pressure from two sides: organised labour opposing privatisation and business groups and the donor institutions pressing for it. The domestic political impasse that emerged since mid-1994 was one of the important factors in stalling the privatisation

¹³⁰ See *The Financial Express*, Dhaka, December 14, 1994.

¹³¹ See *The Holiday*, Dhaka, a national weekly, January 20, 1995.

¹³² See *The Holiday*, Dhaka, a national weekly, January 20, 1995.

programme. The agitational politics of the opposition both inside and outside parliament had thus been partially responsible in forcing the government to recast its priorities and retreat from its pledged privatisation programmes. This occurred as the ruling party's leadership was extremely cautious and concerned about political survival- which was in stake owing to constant opposition attacks, threats from trade unions and bureaucrats in public sector corporations. These and government's political calculations for future forced the government to become passive on privatisation.

It can thus be said that politics played the most instrumental role in the emergence and subsequent conduct of privatisation policy during the Zia and Ershad eras. Similarly, politics continued to be the important factor in determining the pace and shaping-up the privatisation process during the subsequent Khaleda Zia era. There were more continuity with the past on the privatisation front than major changes. Like its predecessors, the Khaleda Zia regime offered concessions and incentives to business groups to preserve their rights. However, privatisation was carried out with more caution than conviction. Sometimes the process moved fast, sometimes it completely stalled and at other times it proceeded at a snail's pace-- depending on calculations of short-term political costs and benefits, under Khaleda Zia's regime and as had been the case under its two predecessors.

During the post-1975 period, in the name of privatisation and increasing private sector participation, soft loans were advanced to business groups. When they defaulted on repayment, as they often did, the loans were written-off, or the interest was restructured or repayment terms were rescheduled. This trend continued throughout the Khaleda Zia era. At best, the defaulters had been identified and in some cases were given ultimatum to repay overdue loans. As a part of its political rhetoric, the government had even persuaded banks to lodge cases against the defaulters with the financial loan courts. But these courts could not be politically neutral.¹³³

In fact, in the industrial sector, the country had not experienced any serious break under the Khaleda Zia regime compared the policies of the earlier regimes. The only sharp distinction between the Ershad and Khaleda regimes concerned the pace of privatisation. Ershad privatised hastily during the initial period of his rule, while, Khaleda Zia followed a "go slow", "wait and see" approach all through. As a result, in spite of government's continuous political rhetoric about privatisation, the

¹³³ See *The Holiday*, Dhaka, A national weekly, July 24, 1992.

actual delivery of it significantly slowed down. In total 115 public enterprises were slated for privatisation between 1991 and 1995, but the regime was able to privatise only 13 enterprises.¹³⁴ And like its predecessors, cronies of the party received preferential treatment, nine out of thirteen owners of units privatised during the Khaleda Zia era had close ties with the ruling party.

Summary

This chapter has shown how the extra-economic factors shaped the initiation and subsequent management of the privatisation process during the period 1975-95. We argue that all three regimes under review, lacked ideological commitment to privatisation. Although they had brought changes in the industrial policies, the leaders were basically driven by considerations of political convenience rather than economic rationality. The chapter has demonstrated that the privatisation policy has been dominated by successive regimes' political imperatives of acquiring and maintaining support from the dominant socio-economic groups to solidify their political position. It was actually a two-way dependency relationship in which the business groups provided necessary support to the regimes in power and helped them staying in office, and in return, these groups were given enormous state patronage through privatisation in particular and favourable changes in industrial policy in general.

It is often argued that authoritarian rule makes it easier to push through difficult reforms.¹³⁵ But the Bangladesh experience with privatisation provides limited support for this view. This was mainly of course, neither Zia nor Ershad was iron-fisted autocratic general. They emerged as military rulers, but with the passage of time, in their own political interests, both civilianised rule and formed political parties-which necessitated interest accommodation of various groups. As a result, the management of privatisation policy effectively became a negotiated process involving compromise. The two military-cum civilian regimes used privatisation as a vehicle to distribute patronage among party cronies with a view to solidifying their material as well as political bases. This process continued without major deviations during 1991-95,

¹³⁴ The enterprises to be privatised included 24 from textile, 24 from steel and engineering, 18 from jute, 12 from sugar and food, 12 from chemical sub-sectors and 23 miscellaneous categories. The enterprises privatised included 6 textile, 4 chemical, 2 steel and engineering and 1 from the sugar and food sub-sectors. The revenue received from the privatisation transaction was over 1200 million Tk. See *Privatization Experience in Bangladesh, 1991-96*, Vol. 1, The World Bank, Dhaka, 1997.

¹³⁵ See Lamb, G., and Weaving, R., *Managing Policy Reform in the Real World-Asian Experiences*, The World Bank, Washington, USA, 1992. p.5.

when the country had an elected political regime. It can thus be said that the formulation and pursuance of privatisation in Bangladesh by successive regimes, was essentially a deliberate scheme to reward and promote the interest of groups that resembled something very like a class, and which constituted the support base of those regimes.

In this chapter we have made an attempt to answer the major question of "why" privatisation has been used as a political vehicle by successive regimes. The next chapter presents further evidence to explore "why" and "how" the reciprocity between the regimes and business groups has been maintained over the years through privatisation and industrial policy changes.

Chapter Three

Politics-Business Nexus and Privatisation

Introduction

This chapter examines the political and bureaucratic connections of the business groups and shows how these groups maintained links with successive regimes and came to dominate the political scene between 1975 and 1995. It argues that the policy of privatisation is a manifestation of the change in the ruling coalition-- which had gained economic prominence from state patronage under military-bureaucratic regimes between 1975 and 1990, and this continued through 1991-95. It was actually a two-way dependency relationship--in which a coalition of convenience was forged by the regime and powerful interest groups which in turn has served their reciprocal interests.

In this chapter, we present case studies of five business groups to show their close ties with successive regimes. These explain why and how the business groups have been able to maintain political connections despite changes in regime. The findings of the survey on the owners of the privatised jute and textile mills substantially confirm the links among the industrial elite, civil and military bureaucrats, and politicians. The chapter shows that the links and ties among the business groups and successive regimes contributed to Bangladesh's deeply entrenched bank loan default culture.

Politics-Business Relationship and Privatisation

Since independence, business representation in the Bangladesh Jatiya Shangshad (parliament) has increased significantly. Between 1975 and 1995, parliaments were dominated by the businessmen and industrialists. As they all had direct and indirect linkages with civil and military bureaucrats, they were in a position effectively to influence the policy process. They favoured privatisation, and private sector development and a market economy in general. This was because they considered these policies were suitable for enhancing their wealth. The table 5 indicates the increasing business representation in parliament under successive regimes.

Table 5: Occupational Background of MPs (in percentage)

Year of election	Nature of Occupation					
	Law	Business	Professional	Politics	Agriculture	Others
1973	26.5	23.7	15.2	12.7	17.6	4.3
1979	23.8	27.7	12.7	N/A	14.6	21.2
1986	20.5	56.7	11.5	4.3	4	3
1991	19	59	14	2	4	2
1996	11	71	12	3	2	1

Source: Ahmad Ullah, Members of the fifth Jatiya Shangshad: A Documentary (in Bengali), Dhaka, Suchayan Prakashan, 1992); Talukder Maniruzzaman, "The Fall of the Military Dictator: 1991 Elections and the Prospect of Civilian Rule in Bangladesh," Pacific Affairs, No. 65 (1992), pp. 203-23.; Q. A. M. Alam, "The Nature of the Bangladesh State in the Post-1975 Period", Contemporary South Asia No. 2 (1993), pp. 311-25. And also our own calculation of the occupational background of the MPs of 1986 and 1996 parliament on the basis of the book containing information on MPs. Ministry of Law and Parliamentary Affairs, 1987 and 1997. Government of Bangladesh.

In the parliamentary elections held in 1986, 1991 and 1996, business representation in parliament increased significantly. In the 1979 parliamentary election, businessmen captured 28% of the total seats, while they captured 57% seats in 1986, 59% in 1991 and 71% in the 1996 election. The cabinet composition of regimes also shows that the businessmen, industrialists, civil and military bureaucrats constituted the most important and dominant group in all three regimes. In 1981, four out of 24 of Zia's cabinet ministers were businessmen, six were military officers, five were civil servants, six were technocrats, two were lawyers, and one was a landlord.¹

Unlike Zia, Ershad made the military the dominant force in Bangladesh from the very beginning. In July 1982, seven of the 16 members of his council of advisors were military officers. In May 1988, 13 of the 35 members of his cabinet were military officers. The cabinet, however, also included six businessmen. In the first cabinet in 1991, under Khaleda Zia, out of 29 members of her cabinet 12 were businessmen and industrialists, 8 were civil and military bureaucrats.²

It can be argued that politics and business are closely intertwined in Bangladesh. According to Kochanek, in India, businessmen function largely behind the scenes to protect their interests, in Pakistan, businessmen become politicians, and in Bangladesh, politicians are often

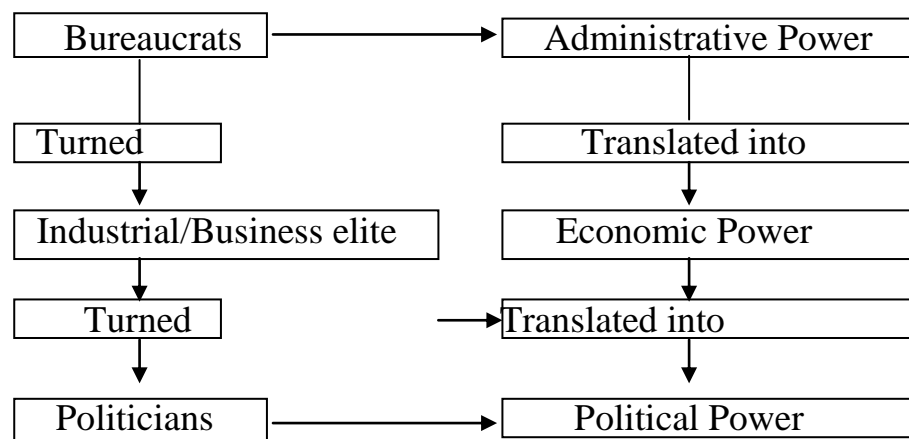
¹ See Alam, Q., "The Nature of the Bangladesh State in the Post-1975 Period", *Contemporary South Asia*, No. 2 (1993), pp. 311-25.

² See *The Holiday*, Dhaka, a national weekly, May 1, 1992.

businessmen.³ Siddiqui and others observed that the relationship between the richest and the bureaucracy and political leaders were extremely close.⁴ During the period under review, there was a social process in which civil and military bureaucrats became businessmen and industrialists under the state patronage. Besides, it was a general trend that civil and military bureaucrats after their retirement first involved themselves in businesses and then became active in politics, and in many instances, they informally involved themselves in business even while in service.⁵

For the existing business groups, their ties with bureaucrats and the politicians contributed enormously to the rapid increase of wealth and capital of these groups through state patronage. Rahman and Haque showed that between 1977 and 1987, 9 business groups of the country had outstanding loans amounted to Tk. 2 billion- which they obtained from the development finance institutions and nationalised commercial banks. The authors indicated that a close connection with the bureaucracy was a necessary condition in the accumulation of wealth through the policy of private sector development.⁶

Figure 2: Bureaucrats and Business in Bangladesh



Interestingly, the bulk of the business-government dialogue has been conducted through personal contacts based on relationships between the heads of business groups, senior bureaucrats, and politicians. Members of business groups are well connected to other politically and socially

³ See Kochanek, S. A., op.cit., p. 230

⁴ See Siddiqui, K., et al., *Social Formation in Dhaka City*, Dhaka, University Press Limited, 1990. p. 182.

⁵ Interviews with an ex-Secretary and Member of the Planning Commission of Bangladesh. Dhaka, November 20 and December 5, 1997. Also Interviews with Akhter Ali, ex-Secretary Ministry of Industries, Dhaka, 16, 19, November and also 01, 04 December 1997.

⁶ See Rahman, M., and Haque, A., *Dhanik Gosthir Lootpater Kahini* (Story of Pillage by the Rich.) in Bengali, Dhaka, Ekota Prakashani, 1987. p. 2

important groups. Siddiqui and others, in a study on 68 richest persons in Dhaka city, found that “there was none among the 68 richest persons of Dhaka who had not socially known one or more of the top officials of the country.”⁷

The larger business houses were politically more active and important than the smaller ones. These groups have been politically so important to successive regimes that they could recommend to the government civil servants of their choice for appointments as managing directors or general managers (even if these civil servants did not have relevant banking experience) of public financial institutions, in order to be able to receive bank loans without difficulty. For instance, Fazlur Rahman and Mohammed Hossain, two senior civil servants, were made managing directors of the Agrani Bank during the Zia and Ershad period respectively. Before joining the bank as managing directors, Fazlur Rahman and Mohammed Hossain had worked as advisors to two big business groups.⁸

These groups had formally and informally lobbied the government to appoint them to the above-mentioned positions. Interestingly, these bureaucrats then became the main channel of access to bank loans for the sponsoring business group in particular and business groups in general. The bank credit they secured in many instances was used to buy public enterprises which were being privatised. Many of these business groups could even influence the government to include their preferred persons as cabinet members. For instance, during the Zia period, Habibullah Khan and Zakaria Chowdhury were made ministers at the request of one of the top business groups of the country.⁹

One estimate suggests that there have been about 200 medium and large business groups in the country until 1980. This number has significantly increased over the years. By 1993, Bangladesh had 980 medium and large business groups, and including small groups,¹⁰ the number will be over 3000. Among these groups, 70 to 80 were the most dominant and have been able to reap the benefit of privatisation and state sponsored capitalist development.¹¹

⁷ See Siddiqui, K. et al., op. cit. p. 182.

⁸ See Rahman, M., and Haque, A., *Dhanik Gosthir Lootpater Kahini* (Story of Pillage by the Rich.) in Bengali, Dhaka, Ekota Prakashani, 1987. p. 2

⁹ See Rahman, M., and A. Haque, op.cit. p. pp. 6-7.

¹⁰ The groups having capital between 200 crore Tk. and more are considered to be the large, while between 100-200 are the medium business groups and between Tk. 50-100 are small business groups.

¹¹ For details see Maniruzzaman, T., *The Bangladesh Revolution and Its Aftermath*, Dhaka, Bangladesh Books International, 1980, p.159. Rahman, M.,

It is evident that the privatisation policy of the Zia, Ershad and Khaleda regimes have given rise to a new group of business elite.¹² Successive regimes distributed patronage among these groups in terms of under-pricing the public enterprises which have been privatised, and also by way of huge bank loans in the name of encouraging private sector and privatisation. In most cases, those who secured bank loans quite often went into default.

A study on 22 business groups in the country found that between 1978 and 1988, thirteen of these business groups owed 141 crore Tk. to Bangladesh Shilpa Bank (a bank for industrial development) which amounted to 57.8% of the total loan disbursed by the bank. And eleven business groups owed 172 crore Tk. to Bangladesh Shilpa Rin Sangstha (industrial credit corporation) which amounted to 85.5% of its total loan disbursement over the same period.¹³ All these groups became wilful defaulters at one stage or other, because they had strong ties with all three regimes, and they knew that the government would not take any harsh measures against them.

Table 6: Changes in Private Investment Ceiling

Year	Private Investment Ceiling (In Million Tk.)
1972	2.5
1974	3.5
1975	30
1977	100
1978 onward	Ceiling withdrawn

Source: Compiled, various documents, Ministry of Industries, Government of Bangladesh, Dhaka.

Our survey revealed that the businessmen and industrialists had very close ties with the bureaucracy, ruling and opposition politicians. It shows that the owners of the privatised jute and textile mills were either the kinsmen or the supporters of the power brokers. They were linked with them through blood relations, marriage, friendship and the affinity of having a common birthplace. Before 1975, the businessmen remained largely behind the scenes, but after the political changeover in 1975 the businessmen became the dominant voice on the political scene. Since then, they have dominated the state in collaboration with the civil and

and Haque, A., op. cit. , Also see *The Holiday*, Dhaka, a national weekly, July 18, 1981.

¹² See Kochanek, S. A., "The Rise of Interest Politics in Bangladesh" *Asian Survey*, Vol. XXXVI, No. 7, July 1996. pp. 704-722.

¹³ See *the Dhaka Courier*, Dhaka, a weekly magazine, August 18, 1989.

military bureaucracy. Table 6 exhibits the upward trend of the private investment ceiling which was the result of the extremely close ties between the business groups and the ruling elite.

We now present five cases of well-known and large business groups in Bangladesh. These groups maintained direct and indirect connections with all the regimes and thus received enormous state patronage, particularly through privatisation and the policy of private sector development. We do not mention actual names of these groups under study or their owners. Because we believe that names are not important, rather it is important to know why and how these groups established and maintained links with successive regimes. It is to be noted that some of these groups had more than one owner but mostly from within their own families. In the following case studies the word 'owner' refers to the major shareholder of a group who has the key decision making power.

Case Studies on Five Business Groups

Case One: Group 'A'

Before independence, the group had two textile mills which were nationalised in 1972 by the Awami League regime. The owner of this group was very much opposed to the Awami League's decision of massive nationalisation of industries. This group had good connections with all successive regimes between 1975 and 1995. But during the Zia era, this group received preferential treatment in obtaining licences, permits, bank loans and thus increased its wealth. One of the owners of this group, had joined the BNP- the political party formed by Ziaur Rahman-- and soon became the treasurer of the party. In course of time, he became one of the influential members of the Zia's cabinet and obtained huge bank loans from different public sector banks.¹⁴ He influenced the government to privatise public industrial enterprises and managed to get back his mills during the Zia era and received financial compensation for the nationalisation of his mills.¹⁵

After Zia's assassination, the owner of this group was arrested on an order from Ershad- the chief martial law administrator- with charges of involvement in corruption.¹⁶ But within a couple of months, he was released and he soon established a connection with the new regime.¹⁷

¹⁴ See *The Bichinta*, Dhaka, a weekly magazine, November 26, 1987.

¹⁵ See Rahman, M., and A. Haque, op.cit. p. 30.

¹⁶ See *The Bangladesh Observer*, Dhaka, a national English daily, March 19, 1982.

¹⁷ See *The Bichinta*, Dhaka, a weekly magazine, November 15, 1987.

He joined the political party formed by Ershad and became a member of parliament in 1986. Later he was made a minister in the Ershad's cabinet, and at that time he influenced the government to write-off part of the overdue loans and to reschedule the repayment terms and conditions of the remaining part of the loans. This group purchased two industrial enterprises privatised during the Ershad era. Besides, the regime, through DFIs and NCBs, advanced new loans to the group. By 1986, overdue loans of this group amounted to Tk. 13 crore.¹⁸

After the fall of Ershad when Khaleda Zia came to power, the owner maintained a low profile for a few months and then joined the BNP again and became a central committee member of the party. He thus continued to receive enormous state patronage during Khaleda Zia era, either in terms of new bank loans for setting up industries or rescheduling the terms of repayment of overdue bank loans. He contested the 1996 parliamentary election as a candidate of the BNP and was elected a Member of Parliament.

Case Two: Group 'B'

This business group had been extremely instrumental in putting pressure on the post-1975 regimes to privatise jute and textile mills. The owner of this group received state patronage in the form of huge bank loans and the purchase of deliberately under-priced public sector jute and textile mills privatised throughout the Zia and Ershad eras. He set about translating his economic strength into political power by involving himself in politics. He became the president of the Dhaka chamber of commerce and industries in 1982, and this position gave him the necessary leverage to negotiate with government about the key issues relating to privatisation and other related industrial matters.

When the jute and textile mills were privatised during the Ershad era, he became president of the association of private jute mills.¹⁹ He then joined the political party formed by Ershad and became the treasurer of the party, and was soon made advisor for jute affairs to the government.²⁰ At that time, he obtained huge bank loans from public sector banks even though he had defaulted on earlier loans.²¹ Later, he

¹⁸ This information is derived from the publication on the life sketches of the members of parliament, Ministry of Law and Parliamentary Affairs, Government of Bangladesh 1987.

¹⁹ This information is derived from the Bangladesh Jute Mills Association. Dhaka, 1998.

²⁰ See also Rahman, M., and A. Haque, op.cit. p. 51.

²¹ See *The Bichinta*, Dhaka, a weekly magazine, October 15, 1987.

was made the minister for jute affairs for a short time by Ershad, but was dropped from the cabinet as other leading business groups resented his failure to look after the interests of business as a whole. However, he again became a Member of Parliament in 1986.²²

During the Khaleda Zia period he was instrumental as a business leader, supported the government's privatisation strategies, and pressed the government to reschedule repayment terms and conditions of overdue bank loans further.

Case Three: Group 'C'

This group maintained good connections with successive regimes during the post-liberation period. Many high-ranking civil and military bureaucrats had formally or informally occupied important positions in this group. These bureaucrats worked as a liaison between the group and the ruling party, and this explains why it received preferential treatment in obtaining bank loans under different regimes.

In 1982 this group's overdue loans amounted to Tk. 126 crore and it was classified as a "bad borrower" by the Bangladesh Bank. Even then it received further bank loans, but refused to respond to the government's ultimatum to repay overdue loans. Rather, this group obtained 7 crore Tk. and became one of the shareholders of the Uttara Bank, worth Tk. 3 crore, which was privatised during the Ershad period.²³

This group maintained relationships with ministers, Members of Parliament of successive regimes, high-ranking civil and military bureaucrats, and bank officials. The group had two jute mills before independence which had been nationalised in 1972. The owner of this group got his mills back during the Zia era, as it provided support to and maintained close ties with the regime after the changeover in 1975. Two key executives of this group joined Zia's cabinet as ministers during 1978-79.

This group also maintained close connections with the civil bureaucracy by informally employing high-ranking civil servants. For instance, a former secretary to the Ministry of Works served as an advisor to the group while he was in public service, and after his retirement he formally joined as an advisor to the group to look after

²² This information is derived from the publication on the life sketches of the members of parliament, Ministry of Law and Parliamentary Affairs, Government of Bangladesh 1987.

²³ See Rahman, M., and A. Haque, *op.cit.* p. 37.

the international business affairs.²⁴ Between 1991 and 1995, using its connections with the regime, the group managed to reschedule its outstanding loans and write off more than 3 million Tk.²⁵

Case Four: Group ‘D’

This group had maintained links with three successive regimes under review and also with high-ranking civil and military bureaucrats. This group received enormous state patronage from the Zia regime after the political changeover in 1975. The owner of this group had close personal relations with President Zia, and could meet him at any time he wanted. During the Zia era this group obtained huge bank loans in the name of setting up industries. Within ten years, the overdue loans of this group from different public sector banks amounted to 24 crore Tk., and most of that had been obtained during the Zia era.²⁶

When Ershad came to power in 1982, this group was classified as a “bad borrower” and the owner was arrested for deliberately not repaying loans. But he was released after only one day. It was well known that he had good relationships with many military generals, and this enabled him to re-establish his connections with the state and to obtain state patronage. He became one of the major shareholders of a private bank during the Ershad era and this was at a time when he failed to repay huge amount of outstanding bank loans.²⁷

The owner also had good ties with the Khaleda Zia regime and was able to use his influence with cabinet ministers to obtain new loans and to reschedule the terms and conditions of the repayment of the overdue bank loans. At least 20 percent of the total bank loans of the group was written off by the Khaleda Zia regime.²⁸

Case Five: Group ‘E’

Before independence, this group had a jute mill which was nationalised in 1972. It had traditionally intimate connections with the Awami League. The principal secretary to the Prime Minister during the Awami League era, was an informal advisor to this group. He was a liaison between the government and the group between 1972 and 1975, and arranged soft bank-loans for it from the nationalised commercial

²⁴ Interview with a former Managing Director of Bangladesh Shilpa Bank. Dhaka, July 10, 1996.

²⁵ See *The Holiday*, Dhaka, a national weekly English newspaper, November 24, 1992.

²⁶ See *The Bichinta*, Dhaka, a weekly magazine, November 20, 1987.

²⁷ See *The Bangladesh Observer*, Dhaka, a national English daily newspaper, May 21, 1982.

²⁸ Interview with a former official of this group. Dhaka, August 22, 1996.

banks. There were a number of other influential civil servants who informally served this group. All were highly paid for their services and were instrumental in negotiations with the government to get the jute mill back.

After the political changeover in 1975, owners of this group established close ties with the new ruling party through these civil servants and eventually got their mill back in 1977. The group also managed to secure huge bank loans during the Zia era, capitalising on its links with the then deputy prime minister who was in charge of the Ministry of Industries, and the then Finance Secretary to the government.²⁹ The group had adequate support from within the regime to persuade the government to reschedule the repayment terms and conditions of the overdue bank loans more than once.³⁰

Ershad, after coming to power in 1982, issued a specific order as martial law administrator to the bank loan defaulters to repay the overdue loans within a specific period. But this group had little difficulty escaping this obligation, because the Finance Secretary who had ties with the group was made the Finance Advisor to the military regime.³¹ This group thus gained further bank loans to invest in the industrial sector. By 1986, its total overdue loans amounted to 27 crore Tk. Interestingly, the former managing director of a nationalised commercial bank, helped the group to obtain loans even after it was classified as a “bad borrower” by the Bangladesh Bank during the early days of the Ershad era. In recognition of the service provided by the managing director, the group offered him a directorship (financial administration) after his retirement from the public service.³²

By the time Khaleda Zia assumed power in 1991, a major figure in this group had become an established national business leader. Later, he was elected president of the Bangladesh federation of chamber of commerce and industries.³³ This group then established good connections with the Khaleda Zia regime, and continued to receive state patronage of various kinds. Between 1991 and 1995, as a business leader the owner put pressure on the government to reschedule the repayment terms and conditions of the overdue bank loans and strongly campaigned for privatisation of public enterprises.

²⁹ See *The Bhorer Kagoj*, Dhaka, a national daily newspaper, August 24, 1995.

³⁰ See Rahman, M., and A. Haque, op.cit. p. 42.

³¹ See *The Bichinta*, Dhaka, a weekly magazine, November 20, 1987.

³² See Rahman, M., and A. Haque, op.cit. p. 45.

³³ See *The Bangladesh Observer*, a national English daily, December 23, 1994.

Political and Bureaucratic Connections of Privatised Jute and Textile Mill-Owners : Presentation of Survey Findings

We conducted a survey to explore the political and bureaucratic connections of the 55 owners of privatised jute and textile mills. The findings, like the case studies above, suggest that the mill-owners were closely inter-linked with politicians, civil and military bureaucrats. The findings help us to understand the material bases of the successive regimes between 1975 and 1995. They reveal that the owners were either the kinsmen or supporters of ruling politicians and senior bureaucrats.

Table 7: When did they get the Mill Ownership?

Mill Category	Zia Era	Ershad Era	Khaleda Zia Era
Jute mills	10%	90%	-
Textile mills	15%	75%	5%

The table 7 indicates how immensely important the Ershad era was to the process of privatisation.

Table 8: Mill-Owners' Fathers' Occupation

Owners' father's occupation	Percentage of the Total Respondents
Govt. service	17%
Small business/trading	46%
Industrialists	11%
Landed property holder	17%
Others	9%

Note: Other occupation includes lawyers, medical doctors, engineers, teachers etc.

Consider the evidence in Table 8 on the mill-owners' background and origins. It shows that about 60 percent of them came from families having some sort of business connections.

Table 9: Owners' Previous Occupational Status

Occupational category	Percentage of the Total Respondents
Businessmen/traders	66%
Industrialists	12%
Civil and military bureaucrats	9%
Landed property holder	6%
Others	7%

Note: Other occupation includes lawyers, medical doctors, engineers, teachers etc.

The table 9 shows that taken together, business/traders and industrialists constitute 78 percent of owners. Only 9 percent of mill-owners originate from civil and military bureaucracy. In interviews, we were repeatedly

told that if we had included in our sample owners of small scale industries and trading houses which had been privatised during the Zia and Ershad periods, the number of civil and military bureaucrats owners' category would have been much higher. Many interviewees suggested that these bureaucrats tended to buy relatively profitable small-scale industries and trading houses because they were easily manageable and less demanding for people with their background.

Table 10: Owners' Experience at the Time of Privatisation

Experience	Percentage of the Total Respondents
No previous experience	41%
Between 5-10 years	14%
Between 10-15 years	12%
Between 15-20 years	15%
More than 20 years	18%

Table 10 shows that 41 percent of the mill-owners did not have any previous experience. Many of the owners whose experience ranged between 5-20 years were running mainly small-scale industries. Some of them were just the dormant minority shareholders of the mills they were running.

Table 11: Owners' Family Connections with Civil and Military Bureaucrats

Close and direct Family Connections with	Percentage of the Total Respondents
Civil Bureaucrats	35%
Military Bureaucrats	21%
Both Civil and Military Bureaucrats	25%
None	19%

Note: These family connections include own brothers and sisters, first cousins, paternal and maternal uncles, aunts, nephews, nieces, father and mother-in-laws, brother and sister-in-laws.

Table 11 shows the remarkably high number of owners who had family links with civil and military bureaucrats between 1975 and 1995. A staggering 81 percent owners had strong family links with bureaucrats.

Table 12: Owners' other Connections with Civil and Military Bureaucrats

Mill Owners Other Categories of Connections	Percentage of the Total Respondents
Distant relatives	39%
Friends	30%
Connection through marriage	16%
Common birth place	6%
No connection	9%

The findings of the survey revealed that a significant number of owners of the privatised mill-owners were also connected in other ways with the civil and military bureaucracy in the capacity of distant relatives, friends, marriage or simply having the common birth place.³⁴ Owners who did not have close and direct family connections with the civil and military bureaucrats, often used these other connections to obtain preferential treatment while purchasing mills. The table 12 shows that fully 91 percent of the respondents were indirectly connected in some way with the civil and military bureaucrats.

Table 13: Owners' Family Connections with Politicians

Mill owners Political Connections with	Percentage of the Total Respondents		
	Zia Era	Ershad Era	Khaleda Era
MPs (ruling and opposition)	55%	62%	65%
Ministers	18%	13%	6%
Other prominent political leaders	14%	15%	12%
No connection	13%	10%	17%

Note: These family connections include own brothers and sisters, first cousins, paternal and maternal uncles, aunts, nephews, nieces, father and mother-in-laws, brother and sister-in-laws.

The above table shows that a huge proportion of owners also had family ties with Ministers, MPs and other political leaders. The survey reveals that 87 percent respondents had close family ties with either ruling or opposition politicians during the Zia period. Ninety percent were related to prominent politicians during the Ershad era, and 83 percent during the Khaleda Zia era. During the Zia period 9 of the sample owners themselves became MPs and 1 became Ministers, while during the Ershad period 14 of the sample owners became MPs and 3 became Ministers. Similarly, during the Khaleda Zia period 12 of the respondents became MPs and 2 became Ministers. This situation helps us to understand the extent of the politicisation of privatisation under successive regimes. This also explains why business groups in general and mill-owners in particular, continued to get all sorts of benefits from privatisation and private sector development policy, even after the civilianisation of military rule during the Zia and Ershad eras and also during the Khaleda Zia era.

³⁴ In the context of Bangladesh this particular tie between people or groups of having common birthplace is very significant. This is an effective affinity and often used to acquire preferential treatments or for personal lobbying .

Table 14: Owners' other Political Connections

Mill owners' connections with ruling and opposition political parties (Ministers, MPs and other political leaders) as	Percentage of the Total Respondents
Distant relatives	52%
Friends	32%
Connection through marriage	8%
Common birth place	5%
No connection	3%

The table shows that the owners had quite significant networks of other sorts of political connections with ruling and opposition politicians between 1975 and 1995. It shows that 97 percent of the mill owners had political links of one sort or another between 1975 and 1995.

Table 15: Location of Owners' Permanent Residence

Owner	Dhaka	Chittagong	Khulna
Jute and Textile mill owners	90%	7%	3%

The survey reveals that 90 percent of the respondents permanently reside in Dhaka, while 7 and 3 percent reside respectively in Chittagong and Khulna- the two other main cities of Bangladesh. This gives them, particularly those based in Dhaka, easy access to state power.

Table 16: Owners' Future Plans about Joining Politics

Answer type	Percentage
Already joined politics	42%
Very willing	23%
Willing	20%
Unwilling	9%
Did not answer	6%

The survey dealt with the issue of owners' future plans concerning involvement in the national politics. Interestingly, 42 percent of the respondents were actively involved in politics, while a further 43 percent were either very willing or willing to do so. In interviews a large number of mill-owners admitted that they made financial contribution to all parties, but most significantly to the ruling party. Many of them contributed individually to the candidates irrespective of their political affiliation, simply because they were either their friends or relatives. Many considered this as a useful investment.

Table 17: Owners' Outstanding Bank Loans

Owners	Percentage of respondents who borrowed from DFIs or NCBs	Percentage of respondents who did not answer	Percentage of respondents who had outstanding bank loan
Jute and Textile Mill Owners	87%	5%	60%

The table 17 shows that 87 percent of the respondents obtained bank credit between 1975 and 1995 from either nationalised commercial banks (NCBs) or public development finance institutions (DFIs). Some of the owners purchased the mills with bank loans. Sixty percent of the respondents defaulted on bank-loans. As already noted, these business groups or their allies had been dominant in the cabinet and later in parliament, and they all had close ties with the civil and military bureaucrats. Therefore, hardly any harsh measure was taken to recover outstanding bank loans from the owners.

Many respondents said that loans had not been repaid because the industries were running at loss, and that many of these mills had lost money even before privatisation. Therefore, they argued that government should completely write-off the outstanding bank loans or continue rescheduling the terms of repayment. They claimed that the subsidies provided by successive regimes to partially offset losses of these industrial units had not been adequate. A number of respondents strongly believed that if they refused to pay, government would not be able to take serious measures to recover outstanding loans. They stated that arresting or harassing mill-owners on charges of not repaying bank loans were politically motivated and would not resolve the problem.

Summary

The main purpose of this chapter is to explore the politics-business nexus within the context of privatisation. This chapter shows that business and politics are very closely intertwined in Bangladesh. Since 1975, the politics-business relationship has grown increasingly strong and extraordinarily harmonious. And this obviously has helped business groups enormously in obtaining state patronage through privatisation and liberal economic policies, despite changes of regime. The chapter shows that between 1975 and 1995, business representation in parliament was on the rise in every election. Most of the top business houses in Bangladesh have had very close relations with politics and politicians, and the chambers of commerce have effectively become stepping-stones to the cabinet or parliament.

This political activity by members of business groups has been translated into a favourable privatisation policy for those groups. The case studies presented in this chapter show that the business groups maintained effective links with successive regimes. The findings of the survey reveal close family and social ties of privatised mill owners with the politicians, civil and military bureaucrats, in short- the ruling elite. That is why changes of regime did not affect the business groups' access to state power. The evidence presented in this and in chapter three demonstrated how privatisation was used as a vehicle for laundering the black money of business groups. The study, thus far, has dealt with politics of privatisation under successive regimes and the role of business groups, in short, the internal factors and actors. The chapter has shown why and how the government responded to the demands of the business groups.

It is apparent that the privatisation process has not been entirely straightforward, due mainly to the conflicting interests of proponents and opponents. Business groups applied pressure for privatisation. Similarly, the international donors also favoured it. However, the public sector trade unions were against privatisation and wanted the government to keep the mills operating at all costs to preserve jobs. The civil servants were divided--some vehemently opposed it, while others were in favour. Therefore, the successive regimes proceeded carefully weighing potential political costs and benefits. The major consideration was the relative political importance of the pressure a group could apply on the regime at a given time.

As the internal political imperatives dominated the privatisation process, the importance of different factors and actors varied, depending on the prevailing political environment. The next chapter examines the role of bureaucrats in the privatisation process because they are one of the most important parties to the process. It explains why a group of bureaucrats resisted privatisation while other remained either supportive or indifferent to it. The chapter identifies various forms of bureaucratic opposition to privatisation, and analyses the ways in which these were managed by ruling politicians.

Chapter Four

Privatisation Process and the Bureaucracy

Introduction

This chapter examines the role of bureaucrats¹ in the privatisation process. It explores the nature, extent and reasons for bureaucratic opposition and support in the context of “on again, off again” nature of privatisation. It analyses the manner in which bureaucratic resistance was dealt with by successive regimes while pursuing privatisation programme. This chapter shows that power and privileges of elite bureaucrats in general has not been eroded or significantly declined after the policy change. Politicians often manipulated the privatisation process for political advantages and forged a “coalition of convenience” with supportive senior bureaucrats having collusive interests to tackle bureaucratic opposition to privatisation.

Analysis in chapter 3 revealed that bureaucrats were tied in interlocking relationships with powerful groups of business or industrial elite. There was a general assumption that bureaucrats in general would strongly support policy that benefited the groups related to them. Strikingly, an in-depth analysis of the role of Bangladeshi bureaucrats in the privatisation process suggests that there have been significant attitudinal differences among bureaucrats based at various levels of administration. Our findings revealed that high-ranking bureaucrats in ministries either supported privatisation or remained indifferent to it. Whereas the bureaucrats of different public corporations— under which public industrial units operate resisted or opposed privatisation. On the whole, the number of bureaucrats opposing privatisation out-numbered the bureaucrats who were in favour. Therefore, formulation of privatisation policy with the support from high-ranking ministerial bureaucrats has been easier for successive regimes, but the implementation of the policy became problematic due to resistance posed by the bureaucrats at public corporations.

¹ The term ‘bureaucrat’ will be used mainly to mean civil servants of cadre and non-cadre categories who occupied managerial roles and who were in crucial position to influence the privatisation policy process.

Clearly, these divisions and differences within the bureaucracy emerged as the bureaucrats at the corporation felt threatened of losing their jobs, authority and more importantly their empire of material gains. Majority of the corporation bureaucrats resisted or opposed privatisation simply because they considered that privatisation would take away their extra-legal earnings. Successive Bangladeshi regimes used various tactical political devices to deal with bureaucratic opposition, and they often took advantage of the division within bureaucracy.

Bureaucrats and Economic Policy Process

It is argued that “Bangladesh inherited an administrative system which exhibited all the institutional trappings of a colonial bureaucracy which was elitist in character, centralised in structure, impersonal in behaviour and formalistic in operations”.² Bureaucrats always tended to dominate the state apparatus given the nature of state and politics in Bangladesh. This situation has been the legacy of the extreme elitist structure of the bureaucracy during the Pakistan period (1947-1971), when the bureaucracy enjoyed extensive control over the policy-making machinery and a happy marriage with the military regimes. There has not been any significant break with this tradition during the post-independence period, and as a result, the bureaucracy continued to dominate the state apparatus specially in the economic policy making agencies in Bangladesh by holding the command posts and by forging an effective alliance with the military regimes.

Table 18: Employment Growth in the Civil Services

Year	Total number of people employed in the Civil Service	Percentage change in growth
1971	454,450	--
1982	779,000	+71%
1986	1,072,854	+40%
1992	946,749	-11.7%

Source: Extracted and calculated, Bangladesh Statistical Year Book (Various Year) and Government that Works, The World Bank, Dhaka, March 1996.

Traditionally, the public administrative system in Bangladesh has been a large and a strong institution. The public administration structure is

² For details see Zafarullah, H., “The Bureaucracy”, in Zafarullah, H. and others (eds.), Policy Issues in Bangladesh, New Delhi, South Asian Publishers, 1994. pp. 1-19.

composed of 34 ministries, 200 directorates, autonomous bodies and 14 public sector corporations and 6000 subordinate offices and enterprises.³ However, this is not to suggest that it is the increased bureaucratic population that has made them important in the economic policy making.

Alavi refers the over development of the bureaucracy relative to political institutions in post-colonial societies. He observed that the politicians and the political parties might challenge the relative autonomy and mediatory role of the bureaucratic-military oligarchy. However, in general in post-colonial societies the relationship between the two has been often complementary and the political parties played the role of weak partners.⁴ Riggs argued that

A phenomenon of the utmost significance in transitional societies is lack of balance between political policy-making institutions and policy implementing structures. The relative weakness of political organs means that the political function tends to be appropriated, in considerable measure, by bureaucrats. Intra-bureaucratic struggle become a primary form of politics.⁵

Ahamed observed that the bureaucrats played a dominant role in the economic policy making sphere partially because of the absence of effective political institutions and partly because of their strong and well developed organisational network and strength.⁶ In Bangladesh, the years between 1975 and 1995 can best be characterised as a period of civil-military bureaucratic coalition although the period between 1991-95 a dominant role was expected to be played by the politicians as the country had an elected government in power. However, even between 1991 and 1995, bureaucrats effectively played important role and bureaucratic influence was very much present in the economic policy process. In the following part we examine the role played by the bureaucrats in the privatisation process and analysis shows that bureaucrats continued to play predominant role.

³ See Aminuzzaman, S., "Management Culture of Public Bureaucracy in Bangladesh" *Social Science Review*, Vol. 1, 1993, University of Dhaka.

⁴ See Alavi, H., "The State in Post-colonial Societies: Pakistan and Bangladesh", in K. Gough and H. P. Sharma (eds.), *Imperialism and Revolution in South Asia*, New York, Adamson and Adamson Ltd, 1973, p.145.

⁵ See Riggs, F. W., "Bureaucrats and the Political Development: A Paradoxical View" in Joseph LaPalombara (ed.), *Bureaucracy and Political Development*, New Jersey, Princeton University Press, 1967, P.120.

⁶ See Ahmed, E., *Bureaucratic Elites in Segmented Economic Growth Pakistan, Bangladesh*, Dhaka, University Press Ltd. 1980, p. 26.

Bureaucrats And The Privatisation Process

During the early phase of privatisation the institutional mechanism was not formally structured, it was weak and ad hoc in nature which provided opportunities for the senior bureaucrats to occupy important positions in the whole process of privatisation. Between 1975-1985, the privatisation of jute and textile mills were administered through the concerned ministries in collaboration with the relevant public sector corporations. We have already seen in chapter three that successive regimes placed enormous responsibility and authority for privatising enterprises in the hands of a group of senior bureaucrats.⁷ The bureaucrats were thus in a position to influence the process to a considerable degree. Both Zia and Ershad carried out their privatisation programme through the Disinvestment Board which included secretaries from various ministries and the chairmen of the sector corporations, served as overall co-ordinator of the working group and committees. And these committees were headed by senior bureaucrats and the obvious result was the concentration of power and authority in the hands of a few bureaucrats.⁸

Bureaucrats have been able to hold their important position in the privatisation process even under the democratic regime (1991-95) through their dominant presence in the Privatisation Board. The Board consisted of a full time chairman (who was a retired secretary) two full time members (who were senior additional secretaries) and eight part time members who are senior civil servants drawn from different ministries such as jute, textile, industries, commerce, law, finance, cabinet division and planning commission.⁹

The Board has been placed under the administrative jurisdiction of the cabinet division which was headed by the Prime Minister. The Board reported directly to the cabinet committee on finance and economic affairs. Ministries having public enterprises under their control had set-up privatisation cell for assisting the Privatisation Board in identifying, preparing, processing, implementing and monitoring public enterprises for privatisation.¹⁰ In the following

⁷ See the Asian Development Bank and Government of Bangladesh, *Implementation of Privatization Program for Public Manufacturing Enterprises Bangladesh*, Final Report, 1993, p. 77.

⁸ See Lorch, K., *The Privatization Transaction and Its Longer Term Effects*, JFK School of Government, Harvard University, 1989, P.9.

⁹ See *Privatization in Bangladesh*, Privatization Board, Government of Bangladesh, 1997, P. 3.

¹⁰ *Ibid.*, p. 4.

section we examine the role played by the bureaucrats at the different stages of privatisation which included selection of enterprises for privatisation, valuation of assets and liabilities, tender assessments, negotiation with buyers and eventually handing over the enterprises.

Selection of Enterprises for Sale

The bureaucrats occupied important positions in selection of the enterprises to be sold since the early days of privatisation. During Zia and Ershad eras, upon receiving the official orders from a group of high-ranking bureaucrats, the decisions were made in the privatisation cell of the ministry of jute and textile and generally by a committee consisted of 4 to 8 bureaucrats from the respective ministry and corporation.¹¹ It is to be noted that these high-ranking bureaucrats acted mostly in consultation with the chief executives of the country.

There had not been any consistent criteria for selection, rather in many cases decisions were arbitrary and guided by individual or sectional interests of politicians or bureaucrats. There were number of occasions in which one or two senior bureaucrats selected a number of jute and textile mills for privatisation without any consultation with anyone else within the bureaucracy, they finalised the document having received direction from the ruling party's top leadership, and then sent the files to the privatisation cell of the respective ministries just for mere formalities.

Bureaucratic importance in the selection of enterprise increased considerably after the creation of Inter-ministerial Committee on Privatisation during Ershad era. This new institutional arrangement diminished the opportunity for selection of enterprise by an individual or a small group, however, opened up the avenue for a number of other high-ranking bureaucrats to be involved themselves in the process. This opportunity was restricted only to the elite bureaucrats who eventually played important role in different stages of transfers. The bureaucratic dominance and influence in the selection of public enterprise for privatisation did not diminish during the Khaleda Zia era. The creation of Privatisation Board headed and manned by bureaucrats helped maintaining this status quo in all phases of privatisation including selection of enterprises.

It is however true that the senior ministers of the ruling party could also intervene at this stage. There were a number of instances where the privatisation board selected a few mills for privatisation, but it was not possible for the board to move further. Because the ministers or

¹¹ Privatization Board, Government of Bangladesh. Dhaka, 1996.

members of parliament “strongly lobbied either to drop the mills located in their constituencies from the privatisation list or to go slow on privatisation”. Sometimes, the Prime Minister showed little real interest about privatisation, “on many occasions she deliberately did not make any quick decision about certain privatisation package considering the political cost of transfers”.¹²

Valuation and Setting the Prices of Enterprises

Bureaucrats were important actors in determining the value and setting the price of the public enterprises which were privatised. During the Zia and Ershad period in case of privatisation, a floor price (the National Reserve Price, NRP) marked out by the bureaucrats based at the Disinvestment Board and that was used as a basis for negotiating with the former owners over their bids. And generally, the bureaucrats were most instrumental in the process of negotiation the prices with the bidders. In some cases, there were more than one bidder for the jute and textile mills to be privatised, but the highest bidder was refused to take over. “Exceptions and exemptions were operational for those who had strong bureaucratic and political connections”.¹³ According to a senior civil servants,

These connections were equally important. Actually at the individual level, the relative importance of political and bureaucratic connections depended on the power and position held by those individuals and often the depth of their relationships with the ruling party as a whole.¹⁴

It can be argued that in the absence of formal valuation and assessment exercises, when arbitrarily setting the price by bureaucrats, allowed buyers to purchase the mills for nominal price. For jute and textile mills to be privatised, the government only asked for the share prices the owners had received or had been offered at the time of nationalisation in 1972. As to bring a owner up to the required 51 percent¹⁵ were supposed to attract a special “re-valued price”, but in practice this was set at the 1972 compensation price. Lorch observed that the price was low indeed. Of the twenty-four textile mill owners, ten paid nothing for their shares (except nominal fee worth a few hundred US\$) because the net worth of their mills in the early 1970’s had been

¹² Interview with a former Chairman, Privatisation Board. Dhaka, June 2 and July 19, 1996.

¹³ Interview with two jute mill owners, interview was held in Dhaka on 7 January, 1998.

¹⁴ Interviews with Akhter Ali, ex-Secretary Ministry of Industries, Dhaka ,16, 19, November and also 01, 04 December 1997.

¹⁵ Most of the former owners had minority shares in those jute and textile mills, the owners required to buy remaining shares to make it up to 51 percent for being the owners in their own right and take over the mills.

negative. Eight other owners paid less than 1.5 million Tk. each. And none of the remaining six owners paid more than 6 million Tk., US\$ 42,000.¹⁶

And there was a serious indecisiveness as to sharing or repaying the existing long-term liabilities such as loans from development finance institutions and nationalised commercial banks. The bureaucrats persuaded former owners to take a chance because they believed that (i) “there was very little to lose and potentially much to gain”, and (ii) “the government would be lenient when the time would come to settle upon the level of debts to be assumed”.¹⁷

Bureaucrats played an important role in the process of valuation of public enterprises during the period 1991-95. The valuation was done by government nominated accounting firms on the basis of some general principles outlined by the Privatization Board. The bureaucrats at the Privatisation Board appointed these firms, examined and reviewed the valuation documents. If they were not satisfied with the valuation of a particular firm, they appointed another firm for re-valuation. The valuation was conducted on the basis of the book value of the machines, assets and liabilities of the enterprises to be privatised.¹⁸

The bureaucrats deliberately denied access to required information or produced the manipulated asset and liability statements about the mills under consideration. To cover the bureaucratic meddling, in many cases even the purchasers were denied access to valuation documents, and the bureaucrats involved in the process had strong links with the politicians. Sadaat observes that on many occasions asset valuation was unavailable to the prospective buyers and it was generally a lengthy process.¹⁹ According to a business leader,

The valuation of public enterprises was subject to lengthy delays, often exacerbated by the poor records kept by the public enterprise or unwillingness of public corporation bureaucrats to provide those records on time. At times, there were interventions from the ruling

¹⁶ See Lorch, K., *The Privatization Transaction and Its Longer Term Effects*, JFK School of Government, Harvard University, 1989. p.20

¹⁷ Interviews with jute and textile mill owners, Dhaka, November 12, 14, 15 November 1997.

¹⁸ Interview with owner of four accounting firms who were assigned by the Privatization Board for valuation of jute and textile mills. Dhaka, February 9 and 23, 1998.

¹⁹ See Saadat, O., “Key Privatization Issues- An International Perspective and Bangladesh Experience”, *Bangladesh Journal of Political Economy*, Vol. XIII, No. 1, 1995, Bangladesh Economic Association, pp. 97-108.

politicians to release such deadlocks. But generally they were sensitive about the results of the valuation exercise not because they wanted to get the highest sale price, but because it might raise questions about past public management and investment decisions. The process was thus prone to political controversy, bringing further delays.²⁰

Besides, some buyers had connections with the bureaucrats and politicians, therefore it was in the interest of the ally purchasers the bureaucrats or politicians tried to impose what should be accounted for and what should not be. Clearly, being anxious not to miss the political window of opportunity, the government skipped the essential task of properly evaluating the asset values and restructuring the finances where necessary. Therefore, the valuation reports in most cases did not reflect the actual financial position of the mills and the statements of valuation documents were largely inaccurate and misleading.²¹

Negotiation with Buyers

This phase was considered one of the most important phases of the privatisation process where bureaucrats had more opportunities to exercise their authority. At this stage, there were frequent formal and informal meetings held between the prospective buyers and bureaucrats to reach an agreement by both parties on price and number of instalments being paid, sharing the short and long-term liabilities, mode of labour retrenchment and severance payment, future financing for the jute and textile mills after privatisation etc.

During Zia and Ershad eras, the negotiation was conducted by a group of high-ranking bureaucrats and they enjoyed considerable freedom on this front. The presidents of the country in many instances also sent politically motivated directives about how the negotiation should go on with particular transactions. Ideally, the price was to be set

²⁰ Interview with a business leader. Dhaka, 10 December 1997.

²¹ No government strictly followed specific valuation procedures. During the Ershad (later part) and the Khaleda Zia eras, generally the valuation of assets and liabilities of public enterprises were given to various chartered accountant (CA) firms. The underlying assumption was that the valuation of the CA firms would be indicative, while the prices offered by the bidders would reflect the market prices. But it is an unwise assumption to be made, the incidence of coercion among bidders and sometimes between buyers and sellers was quite high because of the political manoeuvring. During Ershad period one CA firm estimated the value of Noakhali Textile mill at Tk. 310 million when the maximum offers price by the bidders was TK. 50 million. See for details Islam, R., Outstanding Debt Issue of Denationalized Textile Mills, The World Bank, Dhaka Office, undated memorandum.

in negotiation with buyers. But as the negotiations were executed by just a few government officials and former owners and due to the secret deals between the negotiating partners the profitable industrial units were sold at throw away prices.²²

During 1982-83, while privatising the jute and textile mills, the negotiation between the bureaucrats and the former owners came to an impasse over the questions of the amount debts and responsibility for their repayment. The bureaucrats completed the transfer process in favour of the former owners leaving the debt issues to be settled at a later date. Sometimes the president himself directly or indirectly intervened to push specific cases. But in general, the negotiation was a matter of senior bureaucrats and they by-passed even an important Ministry such as Finance.²³ A senior civil servant described how the important ministries and parties were by-passed at negotiation phase during that period. During the crucial phase of discussions with the private parties in the negotiation the ministry of finance was occasionally consulted. The participation in the negotiation by the state-owned banks which held large loans to the jute and textile mills to be privatised was cleverly denied and trade union representation was also non-existent.

After the creation of the Privatisation Board, negotiation with buyers became Board's one of the main responsibilities. There was a committee of bureaucrats which was in charge of the negotiation. The mill owners stated that the politicians also played important role in negotiations, senior politicians could really be instrumental and dominate the negotiation meetings.²⁴

Table 19: Time Required for Privatisation during the Khaleda Zia Era

Name of the textile mills privatised	Time required for privatisation (in months)
Kishorgonj textile mill	19
5 R textile mill	21
Sinha textile mill	19
Madaripur textile mill	19
Kohinoor textile mill	12
Style fabrics textile mill	19

Source: *Compiled, Privatization Experience in Bangladesh, 1991-96. World Bank, Dhaka, 1997.*

²² See Lorch, K., *The Privatization Transaction and Its Longer Term Effects*, JFK School of Government, Harvard University, 1989. See also Bhaskar, V., "Privatization in Developing Countries: Theoretical Issues and the Experience of Bangladesh", *UNCTAD Review*, No. 4. 1993. United Nations, USA. pp. 83-98.

²³ For details see the Asian Development Bank and the Government of Bangladesh, *Implementation of Privatization...* op.cit. p. 28.

²⁴ Interviews with jute and textile mill owners, Dhaka, November 12, 14, 15 November 1997.

As a matter of fact, many bureaucrats did not have clear idea about their jobs and as the process was not clearly outlined, therefore, they were free to create complications and obstacles and made the privatisation process expensive and eventually delay-prone. In fact, the vagueness of the negotiation procedures opened up opportunities for the concerned bureaucrats to seek rent from the buyers. Interestingly, although the government documents stipulated that privatised public enterprises would be handed over to the private sector owners within 2 months of the issuance of the letter of intent. But in practice, during the period 1991-95 it took the government approximately 18 months on average to hand-over the public enterprises privatised. Table 19 shows the time required for privatisation of textile mills during the Khaleda Zia era.

With the coming of an elected government to power, it was expected that privatisation would aim at procuring realistic transfer values for the public enterprises. The table 20 below is self-explanatory; it demonstrates the huge gap between the estimated values and the actual prices at which a number of textile mills were privatised between 1991 and 1995.

Table 20: Under-Valued Privatisation of Textile Mills during the Khaleda Zia Era

Name of the textile Mills Privatised	Estimated Value (in million Tk.)	Sale Price (in million Tk.)	Difference (in percentage)
Kishorgonj textile mill	326.9	95.3	-70.8
5 R textile mill	271.1	50.0	-81.6
Sinha textile mill	85.9	117.6	36.9
Madaripur textile mill	213.3	80.7	-62.1
Kohinoor textile mill	256.0	180.5	-29.5
Style fabrics textile mill	19.4	12.5	-35.6

Source: Compiled and calculated, Privatization Experience in Bangladesh, 1991-96, World Bank, Dhaka, 1997.

Table 19 and 20 manifest the poor negotiation capacity on the one hand and extent of privatisation related meddling and corruption by bureaucrats and politicians on the other. Particularly, table 20 suggests that people in government both politicians and bureaucrats were making money on bribes. This also explains why an alliance of convenience was effectively forged between the bureaucrats and politicians and more importantly, how rational economic considerations were subordinated to the dominance of extra-economic factors.

Increasing emphasis on private activities or shrinking public sector means reducing the scope of power and privileges for the bureaucrats. Therefore, public bureaucrats in general of course favour larger public sector under which they can have immense power and privileges. In fact, they consider it as a threat since privatisation effectively reduced the

Table 21: Reasons for Supporting Privatisation

Reasons described	Ministerial Bureaucrats (Sample 40)	Public Corporation Bureaucrats (Sample 40)
Supported because	Number of response and Percentage	Number of response and Percentage
It was part of their responsibilities	33 (82.5)	9 (22.5)
Privatisation increases competition and provides opportunities for private entrepreneurs	36 (90.0)	6 (15.0)
Public industrial enterprises under the corporations are grossly inefficient and loss making	27 (67.5)	7 (17.5)
Privatisation has opened up new business opportunities	37 (92.5)	6 (15.0)
Privatisation can generate new employment opportunities	32 (80.0)	5 (12.5)
Privatisation has increased power and privileges	31 (77.5)	3 (7.5)
I was paid off	00	00

resources under their command.²⁵ In Bangladesh bureaucrats have been divided in their responsiveness, support or opposition to privatisation. In general, the civil servants posted at the public corporations posed resistance to privatisation, while there was a section of ministerial bureaucrats who played favourable role. Those who supported privatisation were often closely connected to the buyers of the public mills. We have already seen that the relationship between mill owners, business groups and the bureaucracy has been extremely intimate and one of reciprocity.

Why did the bureaucrats support privatisation? Our survey identified a number of reasons. Table 21 presents the reasons described by the bureaucrats both at the ministry and corporation level. The responses were varied and significant attitudinal differences have been

²⁵ See Monem, M., "Privatisation in Bangladesh- Ambitious Plans, Cautious Implementation", in Schenk, K. (ed.), *Privatisation Year Book-1999*, IFR Publishing, London, pp. 163-167, 1999.

found between the ministerial and public corporation bureaucrats about the reasons for their support to the policy. Out of a total of 80 bureaucrats, 32 percent supported privatisation, while 12 percent remained indifferent to it and 56 percent were against privatisation.

We argue that since the transfer of resources were mediated through the bureaucrats, they themselves sought and managed to get a share of the pie. And obviously, those managed to tap the benefit of the new policy supported it and those who could not or lost out directly or indirectly opposed the programme for obvious reasons. Significantly, our study reveals that in general, more than half of the total bureaucrats posted in the ministries have played a favourable role towards privatisation and the rest generally opposed it. Their opposition to privatisation was basically in the form of non-co-operation or slow official actions on privatisation affairs. In fact, at the ministry, the bureaucrats opposing privatisation have had good connection with the bureaucrats of the corporations and they were just serving mutual interests.

When the government decided to nationalise all industries after independence, the bureaucrats were in favour of it, but at the same time they advocated opportunities for private entrepreneurs, and privatisation of small-scale industrial and commercial enterprises. The ministry of industries, from the beginning, was opposed to the idea of imposition of a ceiling on private investment and was interested in reviving the private sector. Within the government, at the bureaucratic and cabinet level, the need for formulating policy for the private sector was surfacing in various meetings. These concerns found expression in discussions between the ministry of industries and planning commission.²⁶

Between 1975 and 1995, the senior bureaucrats and upper reaches of the ruling party were in favour of increased opportunities for the private sector. Within the ruling party the group having surplus in hand supported the move as they had hopes of moving into industry. And the bureaucracy supported private sector investment as they either had direct opportunities for getting bribes or because of social ties and connections they had with the affluent groups of society wanting more emphasis on and opportunities for private sector. Sobhan observed that some bureaucrats joined a class of business cronies to advance themselves both within the service and in their personal fortunes. Many bureaucrats both

²⁶ See also Sobhan, R. and Ahmad, M., *Public Enterprise in an Intermediate Regime A Study in the Political Economy of Bangladesh*, Dhaka, BIDS, 1980, p. 200.

at the public corporation and ministries discretely tended to interpret the government privatisation policy in relation to their own private matrix where private gains interfaced with public policy.²⁷

The public corporation and ministerial bureaucrats were generally well linked with each other, the relationships may have varied depending on the motive of the participating bureaucrats and also the internal and external factors of the system of organisation. The Public Administration Efficiency Study²⁸ outlined the following patterns of relationships, (i). the “big brother pattern” involving a superior paternal attitudes of the ministerial bureaucrats; (ii). the “pontius pilate pattern” where the ministries were blissfully ignorant of what was going on in their corporations; (iii). the “post mortem pattern” related to conduct of post mortem under compulsion after the happening of scandals; (iv). the “management by crisis pattern” came into the picture only when there was a serious crisis faced by a corporation; (v). the “chess board pattern” which gave rise to a situation of check-mate preceded by confrontations between corporation and the ministry and (vi). the “school of harmony pattern” where the parties respected each other for mutual benefits, where the feeling of ‘we versus they’ was absent and majority of both the parties were working in co-operation towards serving reciprocal interests. And in the context of Bangladesh and in this special case the last pattern was the dominant one.

Now let us examine why did a group of bureaucrats tend to resist privatisation policy. In fact, people in organisations behave in ways they perceive to be in their own best or self-interest. Typically, the self-interests of people in organisations focus on first job security, then on power and status, and finally on financial rewards and perquisites. They will take those actions that enhance their self-interest and avoid those that are detrimental to it.²⁹ Like other policy measures, privatisation process created losers and in the context of Bangladesh, Who were the losers? Certainly, the civil servants were one of the most affected groups. Because the bureaucrats posted at the corporations were the ones who controlled these public enterprises and could wield enormous power and authority. Together with this power and influence, they could also enjoy mostly undue privileges. The senior

²⁷ See Sobhan, R., Bangladesh Problems....op.cit. p.52.

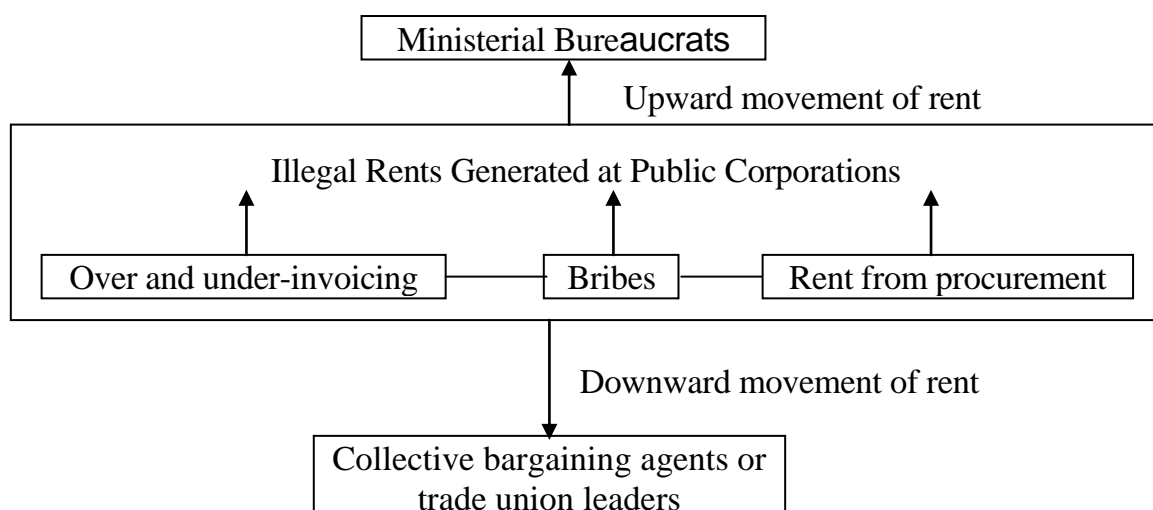
²⁸ For detail discussion on this see Report of the Public Administration Efficiency Study, Vol. 4, Ministry of Establishment, Government of Bangladesh, Dhaka, 1989, P. 23.

²⁹ See Wortzel, H.V., and Wortzel, L.H., “Privatization: Not the Only Answer”, *World Development*, Vol. 17, No. 5, 1989, pp. 633-641.

managers and the bureaucrats in the corporations responsible for managing the nationalised jute and textile mills obtained numerous benefits in cash and kind, both in legal and illegal ways. The legal ones were primarily the benefits obtained in kind such as transport, personal services, supplies and other consumable. The illegal ones ranged from bribes to under and over-invoicing of transactions under public procurement and distribution systems.

Many bureaucrats both at ministries and public corporations had unaccounted money stacked in bank accounts either in Bangladesh or abroad. While a group of bureaucrats have boosted their personal wealth from the proceeds of illegal trade and from misusing their offices.³⁰ Besides, the public procurement system was vulnerable to fraud and abuse. At the corporation level, earning from the public procurements has always been substantial for enabling them to lead a princely life. Interestingly, there was an upward and downward movement of this extra-official income. A significant part of the extra-legal income went upward to the ministry under which the concern public corporation operated, while a part went to the central Collective Bargaining Agents (henceforth CBAs) or the trade union leaders of the concerned corporation and the rest of the income remained with the corporation bureaucrats.

Figure 3: Up and Downward Movement of Rent at Public Corporations



It is understandable that a part of the rent went upward to the ministry, which was the controlling authority of the corporation. Now, why did the rent go downward to the CBAs? This was because of the fact that in general the public corporation bureaucrats maintained strong links with

³⁰ See *The Holiday*, a national weekly, Dhaka, 14 April, 1989.

the CBAs. It was again a two dependency relationship. The bureaucrats based at corporations used the strength of the highly politicised labour leaders as and when it was necessary and in return they were offered a part of the rent generated. When the corporation bureaucrats did not want any particular public jute or textile unit to be privatised, they simply tended to provoke the labour leaders.³¹

The situation was so grave that the senior bureaucrats sometimes the secretaries of the concerned ministries were helpless. Traditionally, after the nationalisation of industrial enterprises many bureaucrats of BJMC and BTMC and the union leaders have been on good terms because the compact for sharing rent generated through misappropriation of public resources.

Table 22: Reasons for Bureaucratic Resistance to Privatisation

Opposed or resisted privatisation because-	Ministerial bureaucrats (total sample 40)	Public Corporations' bureaucrats (total sample 40)
	Number of response and %	Number of response and %
Privatisation has led to job uncertainty	24 (60.0)	40 (100.0)
Privatisation led to loss of power and authority	30 (75.0)	10 (25.0)
Privatisation has reduced facilities	35 (87.5)	36 (90.0)
Privatisation has created disparity	16 (40.0)	40 (100.0)
Privatisation has led to massive job loss	22 (55.0)	38 (95.0)
Did not want any change	15 (37.5)	18 (45.0)

A senior civil servant pointed out that “it was difficult for us to implement privatisation programme without the support from below, we were held hostages to the opposing bureaucrats and labour unions. We could not take any serious action against the corporation bureaucrats because they had well developed links with powerful unions which could have been violent at their will”³².

According to a former jute secretary, implementation of privatisation programmes in most cases bogged-down in the ministry, as the inventory assessments could not be held promptly without the co-operation from

³¹ Interview with Akhter Ali, Ex-Secretary, Ministry of Industries, Dhaka, 04 December 1997.

³² Interview with Akhter Ali, Ex-Secretary, Ministry of Industries, Dhaka, 04 December 1997.

the corporations. There always had been strong bureaucratic and trade union resistance. Only those privatisation package got implemented which were strongly backed by the ruling party. This survey suggests that bureaucrats who have been opposing or resistant to privatisation process, were the groups directly affected by the policy. To them shrinking public sector meant lack of opportunities for rent seeking. But successive regimes could push through privatisation programmes since the policy had strong backing from a significant section of senior bureaucrats.

The analysis shows that the degree of bureaucratic lethargy, ineptness, obstructionism, red tape, and down right venality in the privatisation process was significantly higher in Bangladesh. Some of the obstructionism stemmed from the fear of loss of power and opportunities for illicit money making as the public sector has shrunk and private sector activity increased. Bureaucrats tended to oppose or resist the privatisation programme as a very large and lucrative bureaucratic empires were broken up by privatisation. It is thus clear that bureaucrats opposed it not for ideological reasons, but for factional or private profiteering reasons.

On the contrary, support for the policy came from the section of the bureaucrats who benefited from the policy change. A section of bureaucrats was one of the main beneficiaries of the privatisation process. Many bureaucrats have formal or informal businesses mostly in the name of their partners or off-spring and this has been possible under the free market economy. It can be argued that the civil servants have not lost their power or privileges under the free market policy rather they have got the opportunities to broaden their rent seeking horizon and thus maximising their material well being.

Many received kickbacks in cash or kind from the purchasers in exchange for their sympathetic service in tender or sale price manipulations, some of them joined the private business groups after their retirement as advisors while some set-up own business borrowing necessary capital from the NCBs or DFIs using their earlier connection in the civil service. However, this is not to suggest that the orders from the politicians were unimportant. In many instances politicians and bureaucrats forged effective alliance to support privatisation. In the event of conflicting political and bureaucratic interests, the main determinant was the relative number and strength of the parties involved on the one hand and their political importance to the chief executive of the country on the other.³³

³³ Interviews with Akhter Ali, op.cit.

Nature and Extent of Bureaucratic Resistance

Table 23 presents the nature of the bureaucratic resistance faced by the jute and textile mill owners during transfers. It reveals that the most common problem was the demand for bribe by the bureaucrats and equally significant was the bureaucratic red-tapism. Many of the jute and textile mill owners also faced the problem of bureaucratic non-co-operation in privatisation transactions.

Table 23: Nature of Bureaucratic Resistance Faced by Mill Owners

Nature of the problems faced by the jute and textile mill owner during transfers	Jute mill owners (sample 30)	Textile mill owners (sample 25)	Total number of sample 55
	No. of response and percentage	No. of response and percentage	No. of response as a percentage of total sample =55
Bureaucratic indecisiveness	12 (40.0)	9 (36.0)	21 (38.18)
Bureaucratic red-tapism	17 (56.67)	19 (76.0)	36 (65.45)
Bureaucratic non-co-operation	14 (46.67)	12 (48.0)	26 (47.27)
Demand for 'encouragement' bribe, speed money	22 (73.33)	20 (80.0)	42 (76.36)

When Zia privatised public enterprises including important jute and textile mills, it was actually a direct hit on the traditionally strong bureaucratic empire. When the actual order of privatisation was issued, the bureaucrats based both at the public corporations and the ministries became extremely sceptical about the whole process of privatisation and its consequences. Apart from the possibility of reduction of rents, many civil servants both at ministries and public corporations were particularly dissatisfied with the new policy announcement because of their fear of losing power and authority. According to a former secretary of the Ministry of Industries,

Many bureaucrats spent a lot of time discussing the suitability and feasibility of the whole reform process. Once they knew that a number of senior bureaucrats were backing up the move, many of them got confidence while a significant number of bureaucrats still remained openly critical about the initiative.³⁴

The bureaucrats both at public corporations and ministries who were not in favour of the policy did not come to oppose it directly but they could easily slow down the process of implementation. Some bureaucrats of the jute and textile corporations were not at all

³⁴ Interviews with Akhter Ali, op.cit.

responsive to government decision and did not co-operate fully with the ministerial bureaucrats who were responsible for carrying out privatisation. They took longer time than usual to make a decision or unnecessarily putting the file up or down with irrational and unnecessary queries.

The extent of bureaucratic resistance to privatisation during the Zia era was not really significant. As far as privatisation was concerned, he was moving with utmost caution and relied on a group bureaucrats, his “trusted men” who often intervened and tried to resolve the problems. Zia received a lot of support even from the corporation bureaucrats. This had been possible because of the fact that, (i). promotions or senior scales were offered to a good number of corporation bureaucrats, (ii). increased salary and other allowances, (iii). government assured that power of the corporation which reverted to the ministries would be given back to the corporation at a suitable time in future. Zia appointed civil servants loyal to his regime as chairman and directors to Bangladesh Jute Mills Corporation (BJMC) and Bangladesh Textile Mills Corporation (BTMC) and changed these appointees if they failed to act in accordance with the government's instructions.

Compared to the Zia period Ershad regime faced relatively more opposition from the bureaucrats while implementing privatisation of jute and textile mills. There was an obvious reason for this, during that period a total of 222 public enterprises under different sector corporations were privatised including 33 jute mills and 27 textile mills. The privatisation process necessitated retrenchment of officers, administrative staffs and employees of public corporation as well as the industrial units operating under it.³⁵ The corporation bureaucrats sharply reacted as they were worried about their jobs. After the decision came out, in BJMC the senior bureaucrats met several times to work out the future course of actions. The BJMC's bureaucrats also had several meetings with its central and plant level CBA leaders and provoked them to resist the move of the government. Bureaucratic opposition was also noticeable in BTMC. The bureaucrats had resented the privatisation policy on grounds of “increasing unemployment” in the country.³⁶

One of the striking features of the privatisation in Bangladesh was that the group of senior bureaucrats who were active to implement privatisation programme during Zia era also held important offices

³⁵ See The World Bank, *Privatization Experience of Bangladesh, 1991-96*, Vol. 1, Dhaka, 1997, p. 7.

³⁶ Interviews with Akhter Ali, op.cit.

concerning privatisation under the Ershad era. This group consisted of senior bureaucrats like Shafiul Azam, Shamsul Haque Chisty, Shafiur Rahman, A. M. M. Muhit, Marghub Morshed, Lt. Colonel (Retd.) Moinul Islam Chowdhury.³⁷ The opposing bureaucrats both at the Ministries and public corporations were persuaded by these group of bureaucrats to play a favourable role. The persuasion strategy worked well and slowly the intensity of the resistance declined at the ministries.

However, at the corporation level the non-co-operation continued and bureaucratic meddling came from various levels and sources. The turf battles then began to emerge between the line ministries and BJMC and to the detriment of the privatisation programme. At that stage Azam decided to be a bit harsh with the opposing and deliberately inactive bureaucrats, he formally transmitted this to the Ministry of Jute, Textile and two sector corporations in a letter. He introduced a system of deadlines to be established for bureaucratic actions. He wanted to attach a deadline on implementation and responsible bureaucrats would be accountable for meeting the deadlines. With the passage of time, many bureaucrats complied with the government's stated policy. The bureaucrats at all levels realised by then that irrespective of the nature of the government, privatisation policy would be pursued.³⁸

The bureaucratic opposition was showing a declining trend by 1985, however, bureaucratic grumbling with specific transfers were still there in a limited scale. For instance, government faced sporadic bureaucratic opposition in the form of non-co-operation while implementing its 49-51 plan of turning the public industrial enterprises into holding companies. This was an alternative strategy of privatisation replacing mostly resisted outright sale strategy. The move was termed as an important step toward privatisation in practice it was an effective strategy to get over labour and bureaucratic opposition. However, the bureaucratic ineptness and obstructionism was there at the implementation phase. A group of corporation bureaucrats stated that they knew this 49-51 plan would create more chaos and confusions because of the involvement of the too many parties. They anticipated that operating under too many watchful eyes would be really constraining.³⁹

³⁷ It is to be noted that this list is selective and not in any sense complete, there were many other important bureaucrats who played important role at some stage or other, however, as far as the Bangladesh's privatisation is concerned these were certainly the big names.

³⁸ Interviews with Akhter Ali, *op.cit.*

³⁹ Interviews with three former directors of BJMC and two former directors of BTMC. Dhaka, 14, 16, 17, 18, June and 1, 2, July 1997.

And during and after the implementation of the 49-51 plan, there was systematic meddling by the sector corporations and the bureaucrats of the concerned ministries in the affairs of the enterprises, which restricted them to function along commercial lines and as independent entities. The corporation bureaucrats along with the concern ministerial bureaucrats were interfering in the procurement operations and forced the enterprises to procure goods at a higher than market price. There were also allegations of kickbacks in this process and the result was serious management problems and lesser competitiveness for those enterprises.⁴⁰

By the time Khaleda Zia came to power bureaucratic compliance to the policy increased to a fairly high level compared to earlier period. Besides, as only a few enterprises privatised under Khaleda regime therefore, the incidences, intensity and extent of opposition were naturally less than before. Khaleda Zia's government announced an ambitious privatisation programme but it implemented only 13 enterprises. Although the government received the support of powerful senior bureaucrats from the very beginning but bureaucrats based at public corporations was still showing uncompromising attitudes which deterred implementation of privatisation programmes.

Besides, the labour resistance and ruling party's anticipation of its political implications were among the other major factors which contributed to this. However, senior bureaucrats provided their constant support to the regime and it was also noticeable that bureaucratic resistance at ministries was sharply declining with the passage of time. It is important to note that throughout the period under consideration, senior bureaucrats were in favour of privatisation because they had very little to lose, much to gain. But lower ranking bureaucrats tended to oppose it, because their interests were directly affected. According to a civil servant,

A significant section of the corporation bureaucrats were resisting privatisation from the day the policy was announced and continued opposition between 1991 and 1995. But the cadre civil servants did not oppose privatisation because after the creation of the Board of Investment and Privatisation Board the power and privileges of civil servants have substantially increased.⁴¹

In fact, earlier the authority was divided among different organs of government, but after the emergence of Privatisation Board the decisions rested with it. However, politicians often intervened as they

⁴⁰ See *The Holiday*, Dhaka, a national weekly, 14 April, 1989.

⁴¹ Interview with ex-Secretary Ministry of Industries, Dhaka, 20 November 1997.

were too sensitive about the labour resistance and one telephone call from the Prime Minister's secretariat could easily make the privatisation process a halt. In some cases, politicians overrode the bureaucratic decisions as it was necessary for the political convenience of the ruling party. However, in general, there was a happy marriage between the politicians and the senior civil servants about privatisation transactions. Both the parties wanted to resolve problems in meetings, discussions in amicable ways rather than being hostile to each other on the matters relating to privatisation. As a result, those with the direct or indirect connections with the ruling politicians could really navigate through the administrative maze and vice-versa.⁴²

Summary

Under the public enterprise regime, the bureaucracy controlled and managed the means of production through the state. It also proliferated opportunities for bureaucratic careers by the creation of public bodies needing public managers, marketing boards, development corporations and other parastatal organisations as their subsidiaries. Historically in Bangladesh, the bureaucracy supplied the organisations necessary and the managerial, scientific and technical expertise required for the management of the economy and that was where lay their relative supremacy.

Therefore, a section of the bureaucrats perceived privatisation as a potential threat to their long established positions. While there was a section of bureaucrats— who supported privatisation. This chapter has identified the major reasons for bureaucratic resistance and support to privatisation programme. It shows that the civil servants has played important role in different stages of privatisation— which helps us to suggest that the bureaucrats in general have not lost their power and prerogatives after the introduction and pursuance of privatisation policy.

Many bureaucrats were supporting privatisation simply because it opened up new avenues for rent-seeking. However, there was a section of bureaucrats who have been opposing privatisation mainly because their interests were directly affected or they were fearing potential retrenchment following privatisation. Mostly the bureaucrats posted at the public sector corporations were resistant towards privatisation. Because these groups were directly affected.

The ministerial bureaucrats were divided, a section was in favour while the other was opposing. Their support or opposition to the policy

⁴² Interviews with Akhter Ali, ex-Secretary Ministry of Industries, Dhaka , 16, 19, November and also 01, 04 December 1997.

again centred around their individual or group interests. However, on the whole, the number of bureaucrats opposing privatisation out-numbered the bureaucrats who were in favour. The obvious result was either a halt in privatisation or retreat from the declared privatisation programmes under successive regimes.

Most strikingly, the politicians manipulated the privatisation process quite often, the bureaucrats suffered from indecisiveness due to ruling party's political manoeuvrings. Generally, the politicians maintained good links with senior bureaucrats and forged a "coalition of convenience". The chapter has shown the extent and nature of bureaucratic resistance faced by the buyers of the privatised jute and textile mill owners. The findings revealed that most of the bureaucrats demanded bribes from the buyers at one stage or the other.

This chapter shows how successive regimes adopted tactical means to tackle the bureaucratic opposition while pursuing privatisation policy. The regimes, in the first instance, strived to co-opt a number of senior bureaucrats, offered them very important position in administration to carry-out privatisation programmes. One explanation of this tactic is that the regimes wanted to use the managerial skill and expertise of the senior bureaucrats. It is clear that the regimes wanted to use the bureaucrats to tackle the bureaucratic obstructionism. However, there were always enough who opposed privatisation to slow-down the process. Frequent political interference by political leaders for short-term political gains and bureaucratic resistance considerably influenced the privatisation process. On the other hand, organised labour unions were also able to wield enormous influence over the privatisation process. These unions spared no opportunity to oppose or resist privatisation programmes under successive regimes. Now, the question is, how could successive regimes pursue privatisation policy amidst that strong opposition or resistance from important actors such as organised labour unions?

Chapter Five

Privatisation, Politics and the Organised Labour Unions

Introduction

Privatisation has led to labour retrenchment in the industrial sector, particularly in the jute and textile sub-sectors. Consequently, labour resistance became an obvious and common phenomenon which caused frequent slow-downs or retreats from declared privatisation programmes under successive regimes. Those in power strived to manage labour resistance in ways that incurred minimal political costs. The main argument put forward in this chapter is that organised labour unions were highly politicised and successive regimes used various political devices to ease the political discomfort arising out of labour unions' resistance to privatisation.

The chapter shows that there was a tendency of the labour leaders and workers to shift their allegiance to the ruling party during the period under review. These shifts helped successive governments to implement their privatisation programmes, although on several occasions they were blown off course by strikes, protests or impending elections. Successive regimes implemented privatisation programmes essentially to achieve their political objectives such as creating, rewarding, sustaining and solidifying their support base. This chapter demonstrates with evidence that the organised workers' groups are excessively politicised and they are capable of putting pressure on the government through violent movements. As the top leadership positions of the trade unions were occupied by outsiders,¹ they were easily co-opted by any ruling party. Importantly, all the measures adopted were designed, above all, to serve the political interests of ruling party.

This chapter analyses the degree of unionisation of the industrial labour force, their politicisation, factors contributing to their relative

¹ This meant those who were not industrial workers or employees, but professional labour leaders. In Bangladesh, key leadership position of national as well as in many local trade unions were generally occupied by outsiders.

strength, and the political tactics used by successive regimes between 1975 and 1995 to manage labour resistance to privatisation.

Politicisation of Organised Labour

The organised labour force in Bangladesh is characterised by a large number of unions, quite a significant rate of unionisation, and generally a division at the national level into many labour federations associated with different political parties. The number of trade unions has been increasing steadily since independence, reaching 4,064 registered unions in 1992 with a total membership of around 1.6 million workers.² That is, only 3.5 percent of the total labour force and 33 percent of the formal sector workers belong to labour unions, and the average size of a union is only 400 members.³ The existence of small federations or unions renders compromise or consensus tough to achieve, and makes commitments difficult to honour over a long period of time. Large federations with links with major political parties are more effective in influencing government policy toward labour and the strategies of the labour union movement.

The politicisation of the labour force in Bangladesh is often attributed to the period of nationalisation. It is often argued that the incidence of labour militancy in Bangladesh is higher than elsewhere in the world and the politicisation of labour organisations is responsible for such militancy.⁴ Apart from SKOP, the trade unions are organised at the national level into 23 federations. 14 of these federations are associated with 11 political parties. Whether or not these politically affiliated federations can adopt policies in the interests of workers and independent of the political parties if necessary, depends largely upon the choice of objectives by the insiders and outsiders among the leadership of unions and the policies of the respective parties to which they are linked.⁵

² Directorate of Labour, 1997, Government of Bangladesh and also see *the Statistical Year Book of Bangladesh, 1994*.

³ See Hossain, M. I. and others., *Structural Adjustment Policies and Labour Market in Bangladesh*, Dhaka, Centre on Integrated Rural Development for Asia and the Pacific, (mimeo), 1997, pp. 104-108.

⁴ See Taher, A. M., op. cit. pp. 12-14. Interviews with Kamal Siddiqui, a Secretary to the Government, Dhaka, 15 November, 1997 and 9 January, 1998. Also Interview with Dr. Abdul Moyeen Khan, ex-Minister, Dhaka, November 14, 1997.

⁵ Information is derived from the Directorate of Labour, Government of Bangladesh, 1997.

Table 24: Membership Changes In Ruling Party's Labour Front In Jute And Textile Industries-1975-95

Regime	Changes in Ruling Party's Labour Front Membership		
	Number of Members at the Time of Forming the Labour Front/Coming to Power	Number of Members at the Last Year of its Rule	Number of Members Switched to Government Party' Labour Front (known cases)
BNP (1975-81)	27,000	58,000	31,000
JP (1982-90)	21,000	77,400	40,000
BNP (1991-95)	52,450	86,500	-

Source: Own calculation based on data collected from SKOP Secretariat, 1997.

The efficiency of different political parties in satisfying union demands explains the fact that unions affiliated with the ruling party of the time tend to dominate the trade union movement and can play a relatively important role. Over the years the ruling parties established their labour fronts and could increase their membership without much difficulty. This has generally helped the regime to pursue its intended policy with, however, a few exceptions. In those cases, strong resistance was posed by the workers, irrespective of their political affiliations, to protect their interests.⁶

Jute and textile workers constitute a significant pressure group. This has significant influence over the political process, as it can easily induce mass "hartals".⁷ The trade unions are further strengthened as major political parties have their representatives active in labour front organisations. These workers are dominant in the nation's industrial sector, and maintain strong linkages with national political parties. It is therefore convenient for the workers to take the full advantage of their party ties and vice-versa. Because of the over-politicisation of the organised labour force, the influence of corruption and black money has spread its tendrils throughout the country's labour movement. Many labour leaders have neither the esteem nor the allegiance of ordinary workers because they have earned enormous sums through corrupt practices. The political parties often use labour's strength for political gains. The owners of some privatised jute and textile mills stated that they are often compelled to make substantial payments to political parties in order to secure a quiescent labour force. Because trade unions are divided along political lines, and because of political

⁶ See *The Holiday*, English weekly newspaper, Dhaka, 6 March, 1996.

⁷ Hartal is a local parlance which denotes a strike and complete closure of all public and private offices, stoppage of entire transport and communication system. See The World Bank, Bangladesh: Industrial Public Enterprise Study, The World Bank, Report No. 8666-BD, June, 1990. pp. 48-49.

affiliations, their actions tend to be dictated by politicians to serve the interests of parties rather than workers.

Because trade unions tend to be formed by the political parties, unionisation transcends industry and sectoral boundaries. Hence, labour-related decisions taken in the public sector are quickly transmitted to the organised private sector. According to an estimate of 1991, 50 percent of the total industrial workers were employed in the private sector. The private enterprises in jute manufacturing and textiles follow agreements reached by the government with the unions in the public sector. This is a highly political process and the public sector has not yet been forced to manage its finances so as to cover their long run costs, so for much of the textile sector, the unions have a major impact on the private sector costs. Private jute mill owners reported that they simply could not isolate their labour compensation from that of the government; the unions are too strong and backed by the political parties.

Another trend is that because of the over-politicisation of organised labour, most of the trade unions leaders at central as well as district levels are important political party functionaries. Some of the central-level labour leaders are also quite active at the plant level as elected leaders of the collective bargaining agent (CBA). Although the share of organised workers in the total labour force is low, organised workers, particularly in the jute and textile sectors, are spatially concentrated in what is known as the industrial area, that developed in and around Dhaka city. As a result, labour is able to exert a great deal of political pressure through highly visible strikes, demonstrations and other forms of labour unrest.⁸

Privatisation and the Extent of Labour Retrenchment

One of the most significant aspects of privatisation was the introduction of the Golden Hand Shake Scheme (GHSS) under which a substantial number of public sector employees have been sent to voluntary retirement with certain incentive packages. Our analysis of manpower restructuring is based on BJMC and BTMC, because jute and textile were the two most affected sub-sectors as far as the retrenchment of labour is concerned. These two sub-sectors together constitute about 76 percent of the total number of workers and employees who have been retrenched.⁹ According to an estimate of the

⁸ See The World Bank, *Bangladesh: From Stabilization to Growth*, The World Bank, Washington, 1995. pp. 148-155.

⁹ See *Bangladesh Economic Review 1996*, Ministry of Finance, Government of Bangladesh.

Ministry of Industries, between 1985-1994, about 54,633 jobs together in the jute and textile industries had been lost because of privatisation.¹⁰ The government's labour redundancy adjustment estimates of BJMC and BTMC was about 100,000 people including a large number of workers in 1993. The cost was estimated in order of Tk. 700-900 crores.¹¹

Table 25: Manpower Retrenchment of State-Owned Enterprises

Corporation	Total Number of Employees Retrenched* (Up to 30 June, 1996)	Percentage of the Total
BJMC	38728	53.87
BTMC	15905	22.13
BSEC	2491	3.46
BSFIC	2591	3.60
BCIC	1173	1.63
BFIDC	974	1.34
BRTC	1385	1.93
BJC	2195**	3.05
TCB	620	0.86
BADC	5500	7.65
BFFWT	343	0.48
Total	71887	100.00

*Note: *The numbers include officers, staff and workers, **The corporation has been liquidated. Source: Bangladesh Economic Review 1996, Economic Advisor's Wing, Finance Division, Ministry of Finance, Government of Bangladesh.*

Redundancy in BJMC has been assessed in a series of studies and was the subject matter of negotiation among government and World Bank and the concerned ministries and corporations. In BJMC, about 42 percent of the workers and 51 percent of staff and officers have been identified as excess.¹² The manning ratios for workers and worker-staff as well as worker-officers have been computed on the basis of the better-performing private mills, taking into account the efficient level of manning to identify the excess manpower. The public sector mills

¹⁰ On the basis of the information derived from the Ministry of Industries, 1996, Government of Bangladesh.

¹¹ See *the Annual Report of the Privatisation Board*, Dhaka, Government of Bangladesh, 1996.

¹² See The World Bank, *Bangladesh: Government That Works....cp.cit. pp.140-145.*

generally employ more workers and employees than private mills with comparable capacity or output. The government and World Bank have made tentative estimates of redundancy for BTMC and found 16 percent redundancy among the workers and about 50 percent among the staff and officers. At present, redundancy payments average Tk. 200,000 per worker and employee in jute and 250,000 per worker or employee in the textile sector.¹³

The GHS Scheme has created a sense of insecurity among the working class of the public sector enterprises. The rate and pace of the implementation of the scheme has been vehemently opposed by organised labour organisations as they consider it as the “first phase of [the] complete relinquishing process of the public sector”.¹⁴ The Sramik Karmachari Oikkya Parishad (SKOP), a confederation of the trade unions, having received active support from major political parties, staged several nation-wide hartals to halt the GHS.

Organised workers resented the policy of labour retrenchment, as workers had not been well treated in past privatisations. Even the general provident fund money accumulated by the joint contributions of the workers and the government prior to privatisation, in some cases, were not paid to workers. However, in the face of growing discontent among the workers regarding retrenchment, the government has substantially increased the separation benefits since 1989.

Political Management of Organised Labour Unions’ Resistance

As privatisation necessitated considerable number of labour retrenchment, there was constant labour trouble in the years preceding privatisation. Organised labour declared war on privatisation.¹⁵ As a result, the ruling parties had to slow down the privatisation process, then negotiate with the trade union leaders before they could proceed to implement declared privatisation programmes.

From their inception, privatisation agreements contained a provision that there would be no retrenchment of labour for one year. Some jute and textile mill-owners maintained that it had been practically impossible to terminate workers even after the passage of the year because of extreme political and union pressure and threats of strikes and violence. And this situation raises an important question, i.e., if

¹³ See The World Bank, *Bangladesh: Report on the Textile Industries Restructuring Study -Phase I*, The World Bank, 1992. op. cit. p. 32.

¹⁴ See Aminuzzaman, S., “Structural Adjustment Programme in Bangladesh and its impact on the Bangladesh Public Administration” *Philippines Journal of Public Administration*, Vol. XXXVIII, No. 3, 1994.

¹⁵ See for example Humphrey, C.E., op.cit. p. 210.

labour resistance was so important, how could successive regimes pursue privatisation policies? What were the tactics used by successive regimes to tackle labour resistance? The following part of the chapter deals with these issues.

The Zia Era

When Zia assumed power country's economic and industrial sectors were in a chaotic state. A section of industrial workers were in favour of a change in government, because, they were very critical of the ways industries had been run by the earlier regime. Most of the industrial workers had the impression that the public sector industries were making huge losses due to inefficiency and systematic resource pilferage by the management, and as a result, the workers were denied increased wage and benefits on the ground of losses.

There was serious discontent among workers because the general price level had been showing an upward trend. Zia took the advantage of the situation and capitalised on workers' negative attitudes towards the former regime. As the sharp fall in real wages was a constant source of resentment among industrial workers and employees, Zia at the first instance, intended to restore real wage losses to avoid conflict with the organised labour force.¹⁶

However, when the government announced its privatisation plans, the public sector workers in general became demoralised. Zia's policy of privatisation and steps to create a private sector-friendly environment was largely supported by business and the industrial elite, but the workers were extremely sceptical about the consequence of the policy shift. Between 1975 and 1981, 255 public industrial enterprises were privatised which constituted about 43% of the total. Interestingly, the Zia regime privatised more enterprises than any other regimes under consideration but faced relatively less resistance from the trade unions.

The trade unions were initially prepared to go along with Zia's privatisation in return for his promise that he would take care of the workers. The workers were told that privatisation and any other policy would not adversely affect the interests of the workers. Besides, the government announced an immediate wage increase for the public sector workers and employees. They were also told that more incentives would be forthcoming and were contingent upon industrial

¹⁶ See for instance, Hossain, A., "The Economy: Towards Stabilization" in Zafarullah, H. (ed.) *The Zia Episode In Bangladesh Politics*, New Delhi, South Asian Publishers, 1996, p.72.

growth, and that the government needed co-operation from the workers to implement policies that would lead to such growth. However, the workers had been suffering from a sense of insecurity and fear of losing jobs. Labour leaders, particularly in the jute and textile sub-sectors, in small meetings, asked workers to be uncompromising and to resist any attempt which would put them out of jobs. During the Zia era, at least 30% of the jute and textile manual workers were temporary recruits. Therefore, they could not be part of the trade unions, which was a plus point for Zia. However, those who were permanent workers and members of trade unions were known as repulsive forces with unruly temperaments.

Zia knew that his policy of privatisation would have immense repercussions among workers. He immediately turned to the workers because he realised that the industrial labour was well organised and that they could be very militant. They were thus capable of initiating anti-government movements at any time. Besides, gaining the support of industrial workers would diminish the possibility of the workers being used by the opposition parties against his regime. Zia announced that “workers interests would be given top priority while implementing privatisation policy”.¹⁷

He was very cautious in dealing with labour issues, and adopted certain political tactics to deal with labour resistance to privatisation. He started paying unscheduled surprise visits to different state-owned enterprises to see the working conditions and to provide encouragement to industrial workers. These visits had been organised in order to read the workers’ mood and their reactions to the new policy. While visiting industrial units in different parts of the country, Zia assured the workers that there would be no loss of jobs due to privatisation. In fact, the incidence of labour retrenchment was remarkably low during Zia period. This was because after the transfer of ownership, for the first year, the new owners were not in position to retrench labourers, due to a government bar. Even after one year, it was necessary for private entrepreneurs to seek formal government approval while retrenching workers.¹⁸

Many private entrepreneurs stated that because of constant government pressure, they could hardly retrench workers even if the economic logic suggested it. In some cases, owners of many privatised industries were threatened by the Minister of Industries and Labour,

¹⁷ See *The Bangladesh Observer*, Dhaka, a national English daily newspaper, 12 June 1979.

¹⁸ See *The Holiday*, English weekly newspaper, Dhaka, 6 March, 1996.

who quite openly stated that labour retrenchment without seeking government's approval would effectively diminish the owners' chance of securing DFIs and NCBs' credit and other facilities. There was, however, an exception to application of this rule. The government was particularly harsh with the owners who did not directly support the regime. There were instances in which owners who had close ties with the regime, retrenched a number of workers in the first year after privatisation and simultaneously secured credit from the state controlled sources.

Between 1975 and 1977, the government privatised small and medium scale industrial enterprises. Since these enterprises employed small numbers of workers, labour resistance was less and politically insignificant. However, there were number of instances of labour unrest and demonstrations against privatisation. Many labour leaders urged the government to stop its declared privatisation programme. The Minister for Labour declared that the government would privatise industries only after reaching an agreement with private individuals about not terminating any workers from their present jobs.¹⁹

However, the government encountered tremendous labour opposition from large numbers of well-organised workers in the jute and textile sub-sectors. By early 1977, it finalised the draft guidelines for privatising the public sector jute and textile industries--in which Bangladeshis had majority or minority shares. But the government could not implement it as the workers were too resistant. Although it was a military regime, labour opposition was not handled with harsh measures. Rather, the government wanted to negotiate the matter with the labour leaders and workers. It re-iterated its earlier declaration about barring labour retrenchment for one year. And it was stated that even if the owners of the privatised mills decided to terminate any worker at a later stage, that would have to be within the established legal framework and with an acceptable compensation package.

Zia had a long-term political ambition, and which was why he did not want to antagonise workers. He saw the support of labour as a necessary condition to solidify his support base further. In 1977 and 1978, he had several meetings with the prominent labour leaders opposing privatisation to find amicable solutions. Zia encouraged a number of labour leaders to persuade workers about the potential benefits of privatisation. He stated that the "privatisation process would stall if jute and textile workers did not support the programme".²⁰

¹⁹ See *The daily Bangladesh Observer*, Dhaka, 12 July, 1979.

²⁰ See *The daily Bangladesh Observer*, Dhaka, 10 August, 1979

Zia received the support of four important senior labour leaders who had close ties with the jute and textile workers. Interestingly, two of them were connected to the leftist political organisations and two with the labour front of the erstwhile Awami League. After a meeting, these labour leaders in a joint declaration stated that “privatisation would ultimately benefit the workers”, they urged the workers not to oppose government’s privatisation programme. A number of labour leaders who had left leanings did not, however, attend the meetings and still resisted privatisation. But in general the workers’ compliance with privatisation increased significantly upon frequent government assurances that jobs would be preserved after privatisation.²¹

A section of the jute and textile workers remained uncompromising. As a result, privatisation in much of the jute and textile sub-sectors failed at the implementation stage. Privatisations of some mills were easier than others because the labour leaders loyal to regime worked hard to motivate the workers to go along with the government's privatisation programme. However, the government was very cautious and slowed down privatisation whenever the labour resistance intensified. The privatisation slowed to a snail’s pace, particularly when the regime attempted to civilianise its rule by forming a political party.

After civilianisation Zia wanted to set up a labour front for his party. A number of labour leaders extended their support. In the context of Bangladesh, the reality is that the workers and union leaders tend to be aligned with the ruling party as they find it convenient to have access to the government and to gain access to various benefits. Zia had maintained good connections with labour leaders from the very beginning of his rule and some of these leaders were rewarded by him, through offers of financial benefits, promotion, and employment opportunities for people of the leaders’ choice, arranging special additional increments, etc. These connections helped Zia to increase his political strength within the labour leadership and thus to pursue his privatisation policy.

A number of pro-government labour leaders ‘purchased abandoned commercial units’ being privatised by the regime for a “token payment either in their name or in the name of their close family members”. The workers “were aware of these, but they were divided”, and a “significant number of workers joined the labour front of the party

²¹ See *The daily Bangladesh Observer*, Dhaka, 13 August, 1979

formed by Zia".²² The new party thus succeeded in attracting the support of a considerable number of workers... which eventually helped the government to pursue its privatisation programme. To attract the support of workers who remained opposed, the government increased the pay and other benefits a couple of times during his period. The government reiterated that workers' welfare would be given top priority while it privatised public enterprises.²³

Zia knew the art of managing labour resistance. He was extremely capable person giving sweet words but doing nothing in the end for the workers, these actions of the government made workers less resistant to privatisation. Zia appointed some labour leaders as ministers. For example, Kazi Zafar Ahmed, Reazuddin Ahmed and Abdul Alim became members of Zia's cabinet, and they all had strong connections with country's industrial labour force.²⁴

Government relied on them to deal with privatisation-induced labour problems. In a meeting held in late 1979 with the industrial workers and their representatives, Zia stated that privatisation was the only way to the country's industrial development and that was why labour should not oppose it unnecessarily.²⁵ He also assured workers and their leaders that he would take necessary measures to ensure healthy labour relations in the country. Zia sought the creation of new trade unions in the industrial sector with constructive attitudes. During the period of his rule, about 820 new trade unions were set up with a total membership of 249001.²⁶ However, this was certainly a political tactic to win labour support and to demonstrate that the government was sympathetic to workers.

Table 26: Co-optation of Prominent Labour Leaders in the Cabinet, 1975-95

Regime	Number of Leaders	Years
Zia	6	1975-81
Ershad	9	1982-90
Khaleda Zia	5	1991-95

Source: Own calculation, on the basis of the information derived from various sources, 1997

²² Interview with a senior SKOP leader. Dhaka, 25 November, 1997.

²³ See *The daily Bangladesh Observer*, Dhaka, 24 September, 1979.

²⁴ See Zafarullah, H., "The Legacy of Zia" in Zafarullah, H., (ed.) *The Zia Episode of Bangladesh Politics*, op. cit. pp. 185-86.

²⁵ See *The Bangladesh Observer*, Dhaka, 26 September, 1979.

²⁶ Official document, 1991, Directorate of Labour, Government of Bangladesh.

The workers and union leaders who had been suppressed during the earlier regime were the first to join the new labour front. Traditionally, most trade unions had radical ideological orientations; but in course of time a sense of nationalism was added. Bangladeshi nationalism was advocated instead of Bengali nationalism to muster national unity in support of the new policy package. And as he was in a position to attract a considerable number of workers under the umbrella of his labour front, he could pursue his policy of privatisation without immediately hostile labour opposition.

Table 27: Co-optation of Opposition Labour Leaders to the Ruling Party, 1975-95

Regime	Number	The Party they belonged to
Zia (1975-81)	17	AL, Splinter Leftist Parties
Ershad (1982-90)	14	AL, BNP, and Splinter Leftist Parties
Khaleda Zia (1991-95)	9	AL, JP, and Splinter Leftist Parties

Source: On the basis of the information derived from Directorate of Labour, Government of Bangladesh, 1997.

Zia basically resorted more to incentives to tackle labour resistance to privatisation and than to coercive methods. But as labour opposition to privatisation crystallised during the later days of his rule, Zia took drastic actions against workers. For instance, in late 1979, when workers from a number of trade unions attempted to resist his policy and prepared to launch an anti-government movement, Zia issued an ultimatum to them to return to their work, and those who did not, lost their jobs.²⁷

He adopted these harsh measures as a political tactic, to signal to the other opposing or indifferent workers not to go against the government policy. And Zia resorted to those drastic measures only after consolidating his position and ensuring that public sentiment was with him. So, he adopted both carrot and stick methods in order to manage the labour opposition to privatisation. Initially he had been acting quite cautiously, and relied heavily upon negotiation with labour, giving them hopes for a better future and increasing wages and other benefits. However, after consolidating his position, he had even resorted to the termination of nearly a thousand protesting workers in the public sector who opposed his policy of privatisation.

The Ershad Era

After coming to power, Ershad issued a martial law order in April 1982 to ban trade unions' right to strike and collective bargaining until

²⁷ See *The daily Bangladesh Observer*, Dhaka, 27 December 1979.

further notice. This coercive action made the implementation of privatisation relatively easier for the regime. The government hastened to implement privatisation. The Minister for Industries was aware of the troubles that organised labour could create. Thus, quite swiftly between 1982 and 1983, a significant number of public industrial enterprises were privatised, including 33 jute and 27 textile mills.²⁸

The government's fear of workers' resistance contributed significantly to this speedy privatisation. It announced that privatised units would take over all officers, staff and workers in employment on the date of transfer along with the assets and liabilities. The government assured workers that no terminations and retrenchments would take place for a year from the date of transfer. But in reality, under the 'GHS' scheme 16,000 workers were retrenched from all industries, particularly from the jute and textile mills between 1982 and 1983. All the jute and textile workers and leaders knew that many were to be retrenched at a later stage.²⁹

Therefore, the workers in general were very sceptical about the government's assurance. What aggravated the trade unions' scepticism was the tendency of the new owners of not strictly following the government's guidelines. A number of jute and textile mill-owners, after taking over mills, openly announced that "they did not have resources to feed the unnecessary and excess manpower".³⁰ The government acted quite promptly to meet the mill-owners to discuss labour issues. It was communicated to the new owners that their interests would be taken care of, if they tackled the labour issues with sympathy. This explained the fact that the government was fearful about trade unions' militancy, and many in the government believed that labour agitation could eventually unseat them, especially if they were supported by opposition political parties.³¹

Ershad declared that the workers and staff of the public sector enterprises who had lost jobs for their involvement in the labour movement during Zia's rule would be reinstated.³² This was obviously an attempt to win over the workers. But it had little real impact on

²⁸ See Muhi, A. A., "Privatisation in Bangladesh" in Ramanadham, V.V. (ed.) *Privatisation: A Global Perspective*, London, Routledge, 1993, pp. 447-453.

²⁹ A Ministry of Industry estimate of 1992 showed that during Ershad period about 40 to 45 thousand workers/staff had been retrenched from public sector industrial and other enterprises.

³⁰ Interview with a former President of Bangladesh Employers' Association, Dhaka, 23, 25, January, 1998.

³¹ See *The Dhaka Courier*, a weekly magazine, May 19, 1995.

³² See *The daily Bangladesh Times*, Dhaka, 12 July, 1982.

resistance to privatisation. Even though trade union activities were declared illegal, the government faced tremendous labour resistance while privatising the jute and textile mills. The unionised workers and union leaders from all over the country particularly in Tejgoan, Demra, Tongi, Tarabo, Naraynganj, Narshingdi, Adamjinagar industrial areas, organised rallies and processions to protest against the government decision to privatise public enterprises.³³

Ershad was well aware of the fact that privatisation programmes would face immense resistance. Therefore, even though he was a military ruler, he wanted to reach a consensus on the implementation of privatisation with the workers and labour leaders. He personally arranged dialogues with the workers' representatives and leaders to work out acceptable ways to avoid privatisation-related unrest. These dialogues took place even though trade union activities were suspended and the country was governed under martial law. But as the labour leaders expressed uncompromising attitudes and demanded an immediate stop to privatisation, the dialogues failed.³⁴

The workers in jute and textile mills frequently organised protest rallies and processions. Similar demonstrations were also organised in other industries. The privatisation programme of the regime thus lost its vigour after 1983. As the labour situation worsened, the government arrested 14 labour leaders and 45 workers from five separate rallies organised in the outskirts of Dhaka in early 1983.³⁵ The major opposition parties claimed that the arrested leaders and workers belonged to their labour fronts and demanded their immediate release. The government announced that those who were arrested were "involved in anti-state activities".³⁶

The government reiterated that it would complete the remaining privatisation programme within the shortest possible time. And in a bid to disorganise the united labour groups, Ershad adopted several measures such as accusing a number of trade unions of attacking the state or industrial harmony, and he cancelled the registration of trade unions with negligible irregularities. One estimate suggests that during his rule, about 1487 trade unions having about 19,9793 members were banned. And 17 trade unions were reinstated.³⁷

³³ Interviews with a former President of Bangladesh Employers' Association, Dhaka, 23, 25, January, 1998.

³⁴ Interview with a senior SKOP leader. Dhaka, 25 November, 1997.

³⁵ See The Dhaka Courier, a weekly magazine, May 19, 1995.

³⁶ Interview with a prominent labour leader, Dhaka, May 19, 1997.

³⁷ Information is derived from the Directorate of Labour, Government of Bangladesh.

Because of these repressive measures by the government, in late 1983 some national federations felt the need for greater workers unity and a broad association to press the common demands. Labour leaders attended informal meetings to bring the unions under a united platform, to put pressure on the government to withdraw the ban on trade union activities and to stop privatisation. In 1984, a confederation of the workers and labourers called Sramik Karmachari Oikkya Parishad (SKOP) was formed. The most important demands of SKOP were (i) to stop further privatisation and labour retrenchment; and (ii) to declare and implement a national minimum wage for public as well as private sector employees. The government released all the labour leaders and workers arrested earlier, and a number of them expressed their loyalty to the regime. However, the privatisation process had substantially slowed down after 1984.

A number of factors contributed to the slow-down. First, in 1984, Ershad civilianised his rule by forming a political party, and that meant that he had an acute need for support from all important sections of the society, including organised labour; secondly, the opposition parties announced a more intensive movement against the government; thirdly, Ershad saw the newly emerged SKOP as a real threat to his rule; fourthly, Ershad set up a labour front for his new party. A number of labour leaders and workers joined the front by the end of 1984, including 11 important labour leaders from the AL, the BNP and splinters of leftist political parties. With the passage of time, the membership of the front increased further.³⁸ Ershad had to go slow on privatisation to keep the new front satisfied. All these factors combinedly contributed to the slowing down of privatisation.

The donors and business groups were dissatisfied with non-implementation of privatisation. Particularly, the donors pressed the government not to give in for short-term political gains. Ershad was caught between the donors and the militant SKOP movement. Under SKOP the jute and textile workers decided to organise frequent anti-government protests if privatisation did not stop.³⁹ Ershad also faced opposition from the BNP and the AL and their labour fronts.

Although the BNP's manifesto supported privatisation and an open door economic policy, as a leader of opposition, Khaleda Zia, the BNP chief, had criticised Ershad's privatisation policy and subsequent labour retrenchment in the jute and textile sectors. At a public meeting she

³⁸ Directorate of Labour, Government of Bangladesh, 1993.

³⁹ See *The daily Bangladesh Observer*, Dhaka, 25 June 1986.

said that the government was conspiring to disorganise the united jute and textile workers, and that if any labour leader betrayed the movement would be identified as a national enemy. She stated that if elected she would re-employ the workers being laid-off.⁴⁰

AL chief Sheikh Hasina offered similar views and declared that if she formed the next government, all the mills privatised by Ershad would be re-nationalised. Both the BNP and AL had pro-market orientations but their leaders made these comments in order to agitate the workers and discredit the government. This habit of opposition parties criticising even those policies which they had adopted while in power is common in Bangladesh.

The government at that time realised that the outright sale of jute and textile mills or any other public enterprise would be politically suicidal for the regime. Although, it had strong backing from business groups, it needed to create a support base among organised labour. The government therefore, came up with a new privatisation proposal called the 'Employee Stock Option Plan' (ESOP) which enabled workers to purchase shares in companies being sold and to fill one of nine seats on boards. This was designed to ease opposition from workers by providing them with benefits arising out of privatisation.⁴¹

But this led to new controversies when government could not work out the details of the new scheme. For a time, the ESOP helped a little to soothe public sector workers' opposition to privatisation. But this did not last long because most workers were so poor that only a limited number could actually purchase the stock made available.⁴² More damaging to the workers' opposition to privatisation was their realisation that unions were participating in the stock-buying scheme, and that in many instances, the outsider labour leaders made fortunes. This increased the mistrust between the labour leaders and workers, especially when a number of labour leaders showed lenient attitudes towards the government.⁴³

The regime had been facing increasing opposition from SKOP in implementing even the Employee Stock Option Plan. The ruling party restrained its labour front from joining SKOP and used it to break the

⁴⁰ See *The daily New Nation*, Dhaka, 20 April, 1987.

⁴¹ Interviews with Akhter Ali, ex-Secretary, Ministry of Industries, Dhaka, 16, 19, November and also 01, 04 December 1997.

⁴² See The World Bank, *Bangladesh: From Stabilization to Growth*, The World Bank, 1995. pp. 89-110.

⁴³ Interview with a senior SKOP leader. Dhaka, June 28, 1996.

workers unity at the national level. As labour opposition was becoming violent, Ershad met the SKOP leadership in May 1984, and promised that no further privatisations other than those in the pipeline would go ahead. The government signed an agreement with SKOP in mid-1984, but it then went extremely slow on the implementation of the deal. SKOP and jute and textile workers then threatened the government with workers' violent direct action against the government.⁴⁴

The government desperately needed to sow division within SKOP. To that end, Ershad tended to co-opt into the cabinet a few trade union and political leaders who had close ties with SKOP in particular. This strategy succeeded. Two SKOP leaders Anwar Zahid and Sirazul Hossain Khan accepted ministerial positions in early 1985.⁴⁵ Their departure weakened SKOP's movement. The workers felt betrayed, but this was not an unusual event for the labour movement in Bangladesh. SKOP suffered another setback when two of its prominent outsiders leaders Kazi Zafar and Mustafa Jamal Haider, joined the Ershad cabinet a few weeks later. Kazi Zafar was later made Prime Minister. In fact, these ministerial positions were so lucrative for the leaders that they were ready to accept any criticism by workers or former colleagues.⁴⁶ A prominent SKOP leader, however, stated that

These pseudo union leaders had underworld ties with the ruling party and made their fortunes through pay-offs. Poor workers had paid for the newspapers they read everyday, financed the purchase of cars for them. But they betrayed the workers' movement for personal gains.⁴⁷

As the strength of his labour front increased, Ershad could have proceeded with his privatisation programme. But he was still hesitant and made further efforts to solidify its position among workers. SKOP was pressing government to hold a tripartite meeting among government, private sector mill owners and workers. Leaders of the ruling party's labour front announced that this would be done only if their labour front was accepted to take part in it. The SKOP leadership refused to accept the proposal. Rather, it launched a new protest from December 1984 demanding the realisation of the earlier deal.

⁴⁴ See *The Holiday*, Dhaka, an English weekly newspaper, 19 October, 1984.

⁴⁵ Both Anwar Zahid and Sirazul Hossain Khan were actually former journalists by profession, they were maintaining direct or indirect connections with the labour organisations even when they were in service.

⁴⁶ See *the Dhaka Courier*, a weekly Magazine, May 19, 1995.

⁴⁷ See *The Holiday*, Dhaka, an English weekly newspaper, 19 October, 1984.

In March 1985, the government imposed a ban on the holding of processions, meetings, and hartals. Trade union activities were stopped as a consequence. A number of SKOP leaders were arrested. Subsequently, the workers waged a violent movement which led to the release of labour leaders. The government had offered these leaders important positions either in the party or its labour front while they were under arrest. No one agreed to the government's proposal immediately. However, at a later stage a number of them joined ruling party's labour front.⁴⁸

Labour leaders of the ruling party announced that it was prepared to negotiate with any labour union or federation but not with SKOP. The Labour and Manpower Minister Anwar Zahid announced the formation of a tripartite consultative committee,⁴⁹ but only on condition that the pro-government labour front was included in it. The Land Minister S. H. Khan proposed that treaty should be signed between the government and the different labour federations, as the SKOP itself had no locus standi to conclude such a deal.⁵⁰ The SKOP leadership was divided on the issue, with one faction refusing the government's proposal, while other accepting the idea of a tripartite agreement and the inclusion of the ruling party's labour front.

By the end of 1985, a number of labour leaders and workers joined the ruling party's front from SKOP, splinter leftist parties, the AL and the BNP. The government withdrew the ban on trade union activities and announced a parliamentary election to be held in May 1986. Consequently, the privatisation programme was shelved. Ershad announced that no more public enterprises would be privatised in any form. And, a division of opinion among SKOP's leaders over the issue of participation in the election rendered SKOP, for the time being, ineffective.⁵¹

But this had no effect on the unity of the federation of jute and textile labour unions. Their leadership was determined to oppose the government unless the privatisation and labour retrenchment was formally dropped. They announced a 48-hour country-wide hartal demanding that the government step-down. Both the BNP and the AL immediately lent support to the hartal. The government countered by

⁴⁸ Interview with a senior SKOP leader. Dhaka, June 28, 1996.

⁴⁹ This committee included the representatives of the Government, employers and workers.

⁵⁰ See the Dhaka Courier, a weekly Magazine, Dhaka, 23 October, 1987.

⁵¹ Interview with a senior SKOP leader. Dhaka, June 28, 1996.

offering to negotiate bi-laterally with basic units, by-passing the central leadership. This strategy effectively sowed to create division among the jute and textile workers' unions and many workers groups withdrew support from the strike call.

The government strategy on the issue was simple, to divide the workers. It signed separate deals with co-operative basic unions thus discrediting the central labour leadership. And the SKOP leadership became badly divided on the issue of 1986 election. The AL-led (8 party alliance) faction of the SKOP showed lenient attitude towards the election, while BNP-led (7 party alliance) faction opposed participation in it. The division within SKOP resulted in a deadlock in the country's trade union movement. The government took full advantage of it. Ershad's party won the election as expected and announced its revised industrial policy in 1986. Later, when all the political parties and the SKOP leadership realised that the government was taking advantage of the division within the labour movement, two factions of the SKOP came together in late 1986 and announced their formal re-unification.⁵²

SKOP and the jute and textile workers movement gained new momentum when the opposition political parties decided to move against the government's launching of privatisation in the form of holding companies. SKOP and the political parties needed each other. The political parties used SKOP's strength in their movement against Ershad, but SKOP found it more effective to link up with the unions than to go it alone. The frequent strikes called by the SKOP and the jute and textile workers and the threats of agitation by the opposition parties, were a powerful enough mixture to upset any government.⁵³

Ershad increasingly relied on the four recruits in the cabinet who were former labour and SKOP leaders to deal with SKOP and jute and textile unions. As former labour leaders, they were aware of the strengths and weaknesses of the workers' movement. These leaders put considerable effort into increasing the strength of the ruling party's labour front through co-optation of labour leaders from opposing labour groups and to increasing the membership of loyal unions by offering various kinds of benefits, including gifts and financial bribes. Their main objective was to achieve a place for its labour front in the proposed tripartite consultative committee meeting along with SKOP and the jute and textile federation leaders.

⁵² See the Dhaka Courier, a weekly Magazine, Dhaka, 23 October, 1987.

⁵³ Interview with a prominent SKOP leader, Dhaka, December 14, 1996.

The ruling party's labour leaders considered that once the strength of its labour front had increased, the SKOP and jute and textile federation leadership would have no choice but to accept its inclusion. That would substantially curb the bargaining strength of the labour groups opposing privatisation. There was a strong feeling that this strategy would also help the government to counter opposition parties. Finally in mid-1987, the tripartite consultative committee held several meetings which were attended by the leaders of various federations registered with SKOP, including the jute and textile workers federations, and representatives of the ruling party's labour front.⁵⁴

During the actual negotiations, government representatives refused to discuss issues relating to privatisation and labour retrenchment. Rather, they insisted on discussing the minimum wage and increasing public and private sector wages. The government was about to increase these. Business leaders strongly opposed this because public sector wage rise could inspire similar increases in the private sector. The public sector wages had increased in real terms by 15-25 percent since the mid-eighties, at a time when productivity was declining and SOEs were making huge losses. The donors were also against it. To them, wage rises should have been linked with the labour productivity.⁵⁵ This pushed the government into an awkward situation. It then announced a wage rise as soon as procedural formalities were completed--which was a delaying tactic.

The SKOP leadership realised it and demanded an immediate rise. Its movement against the government and its privatisation programme was growing stronger after mid 1987, and in the face of SKOP's call for a 24-hour nation-wide strike programme, a government team led by Anwar Zahid, Sirazul Hossain Khan, Mustafa Jamal Haider and Kazi Zafar carried out an old and tested strategy of negotiating the movement to coma. The SKOP leaders were under the impression that a last-minute understanding would be achieved and, to this effect, they went on talking to their ex-colleagues till the very last moment before the strike. But the talks then broke down and thus prevented SKOP from organising a strike at the level they were threatening to. This also undermined SKOP's credibility among its supporters. This and divisions within SKOP persuaded three of its leaders, along with 7 jute and textile union leaders to join the ruling party's labour front.⁵⁶

⁵⁴ Interview with a prominent labour leader, Dhaka, December 18, 1997.

⁵⁵ See The World Bank, Bangladesh: Privatization and Adjustment op. cit.

⁵⁶ See *The Dhaka Courier*, a weekly Magazine, Dhaka, 23 October, 1987.

This weakened SKOP, but opposition parties and jute and textile workers federation still backed its efforts to organise the workers' movement against privatisation. In late 1987, SKOP called a 48-hour strike. It was supported by jute and textile workers' unions, but results were mixed. The strike took hold in industrial units where SKOP dominated, but units dominated by ruling party backed trade unions operated as usual. In total 28 persons were arrested in connection with the strike, including three prominent leaders of SKOP. According to a senior SKOP leader,

In many places of the country the police forces supported by the workers' wing of the ruling Jatiya Party had attacked the striking leaders and workers for foiling the programme through terror tactics. Police also raided on the houses of the SKOP leaders. The government was side tracking the demands of the workers and employees out of political motivations.⁵⁷

On the other hand, the leaders of the ruling party's workers' front claimed that peace-loving workers had thwarted the strike.⁵⁸

Early in early 1988, SKOP announced new programmes along with the opposition political parties. This put the government in a slightly uncomfortable situation. SKOP and the jute and textile federation movement turned so violent that the position of the government was shattered. Many jute and textile mills were closed, managers were denied access to the mills and a number of them were manhandled.⁵⁹

SKOP was demanding the implementation of agreed upon deals, increased separation benefits, the abandonment of privatisation and the re-opening of closed industrial units waiting to be privatised. SKOP leadership announced that it would launch violent attacks on the ruling party's Members of Parliament and ministers, as and wherever they appeared. There were number of clashes between the supporters of the ruling party's labour front and jute and textile workers in various locations. As the situation was getting out of control, in July 1989, the government announced a substantial increase in separation benefits for all public sector workers. For instance, a worker with 30 years' service would be entitled to 5 years' pay as gratuity alone.⁶⁰ Ershad also

⁵⁷ Interview with a senior SKOP leader. Dhaka, 25 November, 1997.

⁵⁸ See *The Holiday*, October 23, 1987.

⁵⁹ Interviews with Akhter Ali, ex-Secretary, Ministry of Industries, Dhaka, 16, 19, November and also 01, 04 December 1997

⁶⁰ See The World Bank, *Bangladesh: Report on the Textile Industries Restructuring Study -Phase I*, The World Bank, pp. 16-25.

immediately increased public sector wages and salaries and announced that government would make no further effort to implement privatisation.

The Khaleda Zia Era

While opposing Ershad, Khaleda Zia had once promised to re-open the jute and textile mills which were closed down and waiting to be privatised. After coming to power she found it extremely difficult to deliver on this. There was donors' pressure to retrench the excess manpower in the jute and textile industries and to privatise or close loss making public enterprises. Business groups urged the government to carry out privatisation and create a market friendly environment. The government was vacillating, with SKOP's violent stiff resistance to privatisation in mind.⁶¹ It was announced that the government does not have any plan for curtailment and retrenchment in public sector enterprises. But if restructuring and co-ordination is necessary in some cases for the sake of industrial feasibility and for the national interest, realistic measures will be taken on the basis of negotiations with the SKOP and concerned workers' representatives and alternative jobs will be created and the workers' interest will be fully protected.⁶²

This announcement left donors dissatisfied and business groups demoralised. The government needed to demonstrate to both that it was committed to privatisation and a market economy. While a quarter of the cabinet was busy satisfying labour, others were dealing with the concerns of the donors and business groups. The Textile Minister met the management of 10 public sector textile mills in August 1991.⁶³ These mills had incurred 50 crore Tk. loss during 1990-91 and the management were warned that they would face closure from October, 1991 if they failed to make their units profitable. SKOP and the jute and textile workers immediately called for country-wide 24-hour strike in protest at ultimatum.⁶⁴

While in opposition Khaleda Zia had seen the strength of SKOP and she realised that without SKOP's support, it would be difficult to maintain peace or to implement privatisation. Therefore, she asked the labour front of her party to join SKOP, to weaken SKOP's opposition to privatisation. The SKOP leadership did not want to include ruling

⁶¹ See *The weekly Dhaka Courier*, 14 December, 1991.

⁶² See *The Holiday*, 10 November 1991.

⁶³ The textile minister met the management of Noakhali, Madaripur, Magura, Monnu, Fine, Barisal, Bangladesh, Bengal, Kurigram and Carilyn textile mills.

⁶⁴ See *The weekly Dhaka Courier*, 14 December, 1991

party's labour front because they feared the dubious role which it could play. But later they accepted it when Prime Minister, while addressing the industrial workers, stated that as a people's leader she would take care of the interest of the working class as a whole.⁶⁵ The SKOP leadership considered that ruling party's labour front was very strong, and "if it was included, SKOP's bargaining power would substantially increase". Many thought that "it could be dropped from SKOP at a later stage if it did not play a supportive role".⁶⁶

In order to win the workers' support, in December 1991, the Prime Minister declared reopened the Muslin Textile Mill, formerly the largest of the private mills, with over 2,200 workers and employees. It had been closed for months and, according to experts, had no chance of being viable.⁶⁷ The Government announced that it would identify the real problems of the closed mills and factories and sick industries to take initiative for re-opening them and making them viable in the next three months. The SKOP would provide all co-operation in this regard.⁶⁸

The owners of the closed jute and textile mills were also put under pressure and the government promised generous financing to have those mills opened. According to a business leader, political decisions often impinge on economic matters, but in this case the motives were clearly political and economically unsound. The confidence of the private sector in the government's stated desire for economic reform had been shaken by such political manoeuvring.⁶⁹

Between 1991 and 1995, the regime engaged in consultation with SKOP on six separate occasions. In the first consultation in 1991, the major points of agreement were:⁷⁰ (i). discussions on privatisation and other trade union related issues would continue. The government would not go for further privatisation in the public sector jute and textile industries unless trade unions agreed; (ii). a minimum wage would be fixed for the private sector and the government would take appropriate action in case of violations; (iii). the government would set

⁶⁵ See *The Holiday*, 10 November 1991.

⁶⁶ Interview with a prominent labour leader, Dhaka, May 19, 1997.

⁶⁷ See The World Bank, Bangladesh: Report on the Textile Industries op. cit. pp. 12-16.

⁶⁸ See *The Holiday*, 10 November 1991.

⁶⁹ Interviews with a former President of Bangladesh Employers' Association, Dhaka, 23, 25, January, 1998.

⁷⁰ On the basis of the information from the Directorate of Labour, Government of Bangladesh, 1997.

up a wage commission within two months, the recommended wages would be related with increases in the cost of living, and levels of pay awarded to those in civil services. The commission would include representatives of SKOP; (iv.) government would set up a commission involving representatives of SKOP to review and recommend amendments to labour laws and ordinances.

Khaleda Zia had read the mood of the workers and was well aware that they were resentful about the Ershad's regime's policy of privatisation. Therefore, her first concern was to show that the government would not alienate workers through privatisation. It was stated that "government would go slow on privatisation".⁷¹ Following the agreement with SKOP, the government set up the National Wage and Productivity Commission in early 1992. It then announced a 10% wage rise and other benefits. Later the minimum wage was set at Tk 950 plus other allowances.⁷²

The World Bank estimated that this meant more than a 15 percent increase in workers' total compensation and around a 29 percent increase compared to the compensation a year earlier.⁷³ This directly affected the wages of workers in privately owned jute and textile mills, and they exerted constant pressure for an announcement that the minimum wage would be applicable to the private sector as well. The donors and the business groups were dissatisfied with this extremely lenient attitude towards industrial workers on the one hand, and a near stalemate in the privatisation programme on the other. The workers, particularly the jute and textile workers were extremely relieved that privatisation had been slowed down. But a section of the business group was criticising the regime openly. According to a business leader, the government was trying to make all quarters happy through false pledges. Political calculations were more important than industrial or economic growth. The government only half-heartedly planned privatisation, therefore, it announced a programme one day which it changed the next day on the privatisation front. It appeared that the trade unions had great manipulative power.⁷⁴

⁷¹ See *The Holiday*, June 26, 1993.

⁷² See The World Bank, Bangladesh: Report on the Textile..., op. cit. pp. 32-36.

⁷³ See The World Bank, *Bangladesh Implementing Structural Reform*, Washington, 1993, pp. 71-76.

⁷⁴ Interview with the former vice-president, Metropolitan Chambers of Commerce and Industries, Dhaka, August 27, 1997.

The donors threatened to freeze aid flows in certain sectors. The government, therefore, could not stay away from privatisation programme for too long. The Finance Minister announced that the government would soon embark on privatisation, because this was the way to achieve desired economic growth.⁷⁵

Minister for Labour stated that the government's policy towards privatisation is clear and unambiguous. But this does not necessarily mean that all public sector enterprises will be and can be privatised over night. There are so many aspects to go into like determining the assets and the liability and also locating private entrepreneurs... privatisation of big public enterprises can only be implemented when these and other incidental modalities are worked out.⁷⁶

As the ruling party's labour front became stronger within SKOP, the regime decided to revive its privatisation programme. In fact, by early 1993, ruling party's labour front occupied a dominant position in SKOP, and its leadership was accepted by workers. They considered that the reopening of a number of mills and the minimum and general wage rises had been possible because of the Jatiyatabadi Sramik Dal's (BNP's labour front) strong position in SKOP. It was decided that the government would not undertake a general programme of privatisation for public enterprises. However, it stressed that the government might privatise an unviable and unprofitable enterprise, but would in such a situation ensure that workers' rights were protected. The Prime Minister declared that the privatisation programme would be carried out and that the labour would be given due financial compensation before retrenchment. The government also committed itself to social safety-nets for affected workers. She declared higher severance benefits for the retrenchment of public sector employees, and she asked the private entrepreneurs to make similar severance payments if they cut labour from their industrial units.⁷⁷

The regime had mostly been implementing the labour retrenchment decisions of the earlier regime. Although during the Ershad period Khaleda Zia criticised the government for "unnecessary labour retrenchment", she had not discontinued the process once she was in power. About 35, 000 had been retrenched.⁷⁸ As the regime announced the privatisation of jute and textile industries, SKOP and the jute and

⁷⁵ See *The Holiday*, June 26, 1993.

⁷⁶ See *The Holiday*, February 7, 1992.

⁷⁷ See *The Holiday*, February 7, 1992.

⁷⁸ Ministry of Industries, Government of Bangladesh, 1996.

textile unions turned hostile to the regime, despite high severance pay and assurances that workers interests would be protected.

In 1993, the government established a Privatisation Board upon donors' insistence.⁷⁹ But the Board failed to achieve its privatisation target. Indeed, the privatisation process became even slower after the Board was set up. According to an informed civil servant, With the establishment of Privatisation Board the government fulfilled its commitment to the donors. But the government showed little real interest to implement privatisation programmes. Now, the Prime Minister or the Finance Minister could easily put the blame on labour resistance or bureaucratic red-tapism for such delays.⁸⁰

For instance, decisions on the privatisation of 24 public industrial enterprises had been finalised by the Privatisation Board after it was established in March 1993. But it could not actually privatise a single in the first year of its existence. By the first quarter of 1995, it had succeeded in handing over 11 units. As stated by the government, the remaining public enterprises could not be transferred to successful bidders, because of labour resistance and bureaucratic non-responsiveness. It is important to note that the political convenience of the ruling party largely contributed to the government's failure to implement privatisation.⁸¹

At that point, there was a division within SKOP. The opposition political parties and their labour fronts were blaming the ruling party's labour front for playing double game. They wanted to drop it from the conglomeration. According to the labour leaders of four sectoral bodies representing jute, textile, sugar and steel and engineering sub-sectors, The Jatiyatabadi Sramik Dal was active to execute the policy of the government in the SKOP. Not only that, it attempted to frustrate the workers' movement by playing a passive role in some areas and also by directly opposing the movement in other areas.⁸²

The ruling party's labour front thus lost much of its acceptability and confidence of workers within the SKOP. A number of SKOP leaders demanded the expulsion of ruling party's labour front from SKOP. However, the top SKOP leadership did not take any immediate

⁷⁹ This organisation was given all the responsibilities to handle the process of privatisation of public enterprises. See *Privatization in Bangladesh*, Government of Bangladesh, 1997.

⁸⁰ Interview with a former member of the Privatization Board, Government of Bangladesh, Dhaka, March 7, 1998.

⁸¹ See *The daily Financial Express*, Dhaka, a national newspaper, 9 March, 1995.

⁸² Interview with a prominent labour leader, Dhaka, May 19, 1997.

penal measure against ruling party's labour front anticipating a larger split within SKOP in future.⁸³

SKOP, and the public and private sector jute and textile workers all had been on the streets to protest against labour retrenchment which was going on as a result of privatisation. The workers became so violent that the experts and the consultants involved in the valuation of public enterprises could not carry out their tasks. In many instances, the workers threatened to assault them physically. Many accountancy firms also faced threats of violence from workers when they had visited the nationalised units for inventory audits.⁸⁴

The ruling party's labour front was still with SKOP, but it did not take part in this violence. The Jatiyatabadi Sramik Dal was apparently acting against government's decision of privatisation of jute and textile mills.⁸⁵ In fact, the government *instructed* its labour front to act against its policy and to gain the confidence of workers and other SKOP leaders. It was a political strategy because, with the presence of Jatiyatabadi Sramik Dal in SKOP, the government could avert serious resistance from SKOP and opposition political parties. However, the position of the ruling party's labour front became weaker within the SKOP particularly after mid-1994.

By mid-1994 the government faced immense pressure from business groups to implement the pledged privatisation and industrial reform. As a response, the government showed some seriousness about privatising 10 jute and 7 textile mills by the end of 1994.⁸⁶ Consequently, workers' resistance to privatisation began to rise in all industrial sub-sectors, particularly in the jute and textile sub-sectors. The jute and textile workers, having received support from SKOP, both in the public and private sectors announced a 96-hour strike in their mills and a "road and rail barricade" from February 1995. The Minister for Jute opined that the objective of these workers' programme was to create chaos. He accused the workers of fulfilling designs of the country's competitors in the jute sector. He stated that,

...This is the other side of the dirty politics, the workers are being used by the opposition political parties, ...and workers should limit

⁸³ See *The Holiday*, Dhaka, Dhaka, a national English weekly newspaper, June 26, 1993.

⁸⁴ See *The daily Observer*, Dhaka, an English national newspaper, 6 April, 1995.

⁸⁵ See *The Holiday*, Dhaka, 16 November, 1994.

⁸⁶ See The World Bank, Bangladesh Government That... op.cit. pp. 150-156.

their programmes in mill areas only... they have no right to make the common man a hostage.⁸⁷

On the other hand, leaders of the jute and textile unions alleged that the government's accord with the World Bank to privatise the jute sector was designed to hand over Bangladesh's export market to a neighbouring country. They pledged to continue their agitation until their demands were met including implementation of the latest wages commission awards in the private sector jute and textile mills, granting 30 percent dearness allowance, and halting privatisation of public enterprises.⁸⁸

The cabinet was divided about its response. One group was in favour of taking serious repressive measures to demonstrate that the government was capable of controlling any crisis situation. Another group who were in favour of suspending reforms and privatisation before the next general election. They maintained that this labour unrest, specially in the jute and textile sectors, would have far reaching political implications in the election scheduled for 1995. Many did not want to antagonise the workers because they also had strong rural connections.⁸⁹

There was also a strong feeling among a section of ruling politicians that the opposition parties, particularly the Awami League, would reap the political benefits of labour unrest. Many cited labour unrest as main reason for the ruling party's defeat in the city corporation elections in Dhaka and Chittagong in 1994. However, the Jute Minister managed to convince party leaders, including the Prime Minister, that if the government did not take serious measures against the anarchic situation, it would lose its credibility and the people would wonder 'if there was any government' in the country.

The jute and textile workers announced a general strike programme along with road and rail barricade, to protest against privatisation and to demand a further minimum wage award. The government firmly resisted the "road and rail barricade" and strike programme. Eventually, violent strikes left three workers dead in a clash between the workers and police.⁹⁰ Popular sentiment favoured the workers. In order to ease the

⁸⁷ See *The daily Star*, Dhaka, 9 February, 1995

⁸⁸ See *The daily Star*, Dhaka, 9 February, 1995.

⁸⁹ See *The daily Bangladesh Observer*, 17 February, 1995.

⁹⁰ Although the number of people who had been killed in violence varies, According to SKOP source total 17 people had been killed throughout country

already volatile situation, the government declared that the family members of those who had lost their lives in the incident would receive compensation. It also announced cabinet reshuffle, to minimise the wide repercussions within the society as a whole.

The opposition parties termed the government actions “autocratic” and “uncivilised”, and the chief Awami League stated that “the country is being ruled by a government which believes in politics of killing and violence.”⁹¹ Supported by opposition parties, the jute and textile workers called another 96-hour strike to press their demands for the implementation of minimum wage award for private jute and textile mill workers. The government at this point tried to respond to the threat of strike and blockade with “persuasion and administrative measures”.⁹² Minister for Labour urged the owners to consider their “reasonable demands”, to maintain congenial working atmosphere in the industrial sector. He urged them to enter into negotiations with the workers to find ways of convincing the labourers to call their strike programme off.⁹³

The government announced that it would organise a tripartite consultative committee meeting with SKOP and the Employers Association to meet workers demands, particularly implementation of the wage award for private sector jute and textile workers. But the situation was complicated because Bangladesh Employers Association (BEA)--the central body of owners- was not only unwilling to implement the wages commission award for the private sector jute, and textile mills, but it also refused to accept SKOP as representative body of the workers. The BEA was instead willing to negotiate with employees directly at plant level. It would not sit with trade union leaders who were not leaders of the basic unions.⁹⁴ According to a leader of BEA,

The plant-level CBAs are reasonable. The problems arise when politically motivated outsiders interfere in the affairs of the CBAs. SKOP is a political grouping of some labour leaders. There is no harm in SKOP having a political platform but some of its leaders should neither be allowed to take law into their hands claiming representation of workers' interests nor permitted to dictate on the issues which are to

and 500 people had been wounded. See *The daily Financial Express*, Dhaka, 10 March, 1995

⁹¹ See *The daily Star*, December 12, 1995.

⁹² See *The daily Financial Express*, Dhaka, 11 February, 1995.

⁹³ See *The daily Financial Express*, Dhaka, 14 September, 1995.

⁹⁴ See *The daily Morning Sun*, Dhaka, 12 February, 1995

be decided by the people's representatives. The government must not succumb to the pressure of such leaders of the SKOP. Those who resort to blockade of roads or any other disruptive means to enforce the strike, ought to be dealt with firmly as per law.⁹⁵

The government was caught between business groups and violent workers. The workers pressed for an end to privatisation, while the owners of the private sector mills expressed their inability to raise wages and pay the minimum wage, since they were already making losses. The Bangladesh Jute Mills Association and Bangladesh Textile Mills Association leaders urged the political parties not to take any step at the cost of the country's potential industrial progress.⁹⁶ The business leaders stated that given the opposition political parties' present role, they could not expect to receive any kind of support from the country's industrial and business groups. In response to these reactions there was a qualitative change in trade union politics. The "major political parties stopped directly supporting the jute and textile mill workers or SKOP movement."⁹⁷ According to a SKOP leader,

The political parties have always used SKOP to achieve their targets, election is ahead so now they need support of the members of business groups more than the workers. We contacted the top ranking leaders of the Awami League and Jatiya Party several times, sought their support to the on-going workers' movement. But the leaders of those parties were really passive in their responses.⁹⁸

However, the tripartite consultative committee meeting was held upon the insistence of the government. It failed to reach agreement. Since the major opposition parties were not directly supporting the SKOP movement, it lost its vigour. The stubborn attitude of SKOP leaders in relation to privatisation had softened substantially, as they had realised that any government that came to power pursue this policy. The workers, therefore, changed their list of demands and sought protection of their interests, alternative employment opportunities and higher severance benefits for retrenched workers.

Summary

It is evident that the degree of unionisation is quite high in the industrial sector, particularly in the jute and textile sub-sectors. Generally, the trade

⁹⁵ Interview with the former vice-president, Metropolitan Chambers of Commerce and Industries, Dhaka, August 27, 1997.

⁹⁶ Interviews with a former President of Bangladesh Employers' Association, Dhaka, 23, 25, January, 1998

⁹⁷ Interview with a senior SKOP leader. Dhaka, 25 November, 1997.

⁹⁸ See *The daily Morning Sun*, Dhaka, 12 February, 1995.

unions are quite strong and they can turn violent for trivial reasons. The organised industrial workers maintain their rural bases, and ties that contribute further to their political influence. But as organised workers' groups are excessively politicised, they often become divided from within. And the ruling party tend to take full political advantage of this situation. Nevertheless, trade unions are capable of putting pressure on the government through violent movements.

This chapter shows how trade unions have resisted the implementation of privatisation programmes under successive regimes between 1975 and 1995. Those regimes, in their bid to remain in office, adopted both carrot and stick methods to manage labour opposition to privatisation. But these regimes resorted more to incentive-oriented approaches than strict coercion. All the measures adopted were designed, above all, to serve the political interests of ruling party.

Besides, as the top leadership positions of trade unions were occupied by outsiders, they were easily co-opted by the ruling party. This eventually weakened and fragmented labour resistance to and united movement of organised labour unions against privatisation. This chapter has shown how the SKOP leadership were co-opted by the ruling party. Throughout this period, one of the common features was that with every change in regime, there was a tendency of the labour leaders and workers to shift their allegiance to the ruling party. These shifts helped successive governments to implement their privatisation programmes, although on several occasions they were blown off course by strikes, protests or impending elections.

One important and apparent trend was organised labour's shifts from a position of implacable opposition to a degree of acceptance of privatisation. The major reason for tendency were the continuous huge losses of public sector enterprises and the realisation by workers that the alternative to privatisation might be the closure or liquidation of the public enterprises concerned. During the period under consideration, a number of mills from various sub-sectors including jute and textile mills were shut down because they were not economically viable. These messages of mill closures and liquidation were communicated to workers quite regularly by various means, in order to motivate them to favour privatisation.

Clearly, successive regimes pursued privatisation policy essentially to achieve their political objectives such as creating, rewarding, sustaining and solidifying their support base. Therefore, they were

responsive to different groups at different point of time. Privatisation was slowed down when labour resistance increased, but it was accelerated when there was pressure from the powerful business groups and the foreign aid donors. Donors particularly the World Bank and ADB are important actors in the privatisation process. The next chapter therefore deals with the role of these important external actors in the privatisation process. It examines their role in both the formulation and the implementation of privatisation, and it shows how internal politics ultimately determined the pace of privatisation.

Chapter Six

Privatisation Process and the Role of Foreign aid Donors

Introduction

This chapter examines the role of the foreign aid donor in the formulation and implementation of privatisation policy between 1975 and 1995. The extreme dependence of Bangladesh on foreign aid has given the donor agencies effective leverage over the economic policy making of the country. This chapter assesses the donors' leverage on the economic policy making process in general and privatisation in particular, and the mechanisms through which the donors tended to influence policy. It also analyses how far the prescribed policies of the donors relating to privatisation have eventually been implemented and why there has been a significant gap between successive regimes' initial compliance with the policy and the subsequent low level of implementation.

The main argument is that the aid conditionality and pressure of the donor agencies as well as the internal political imperatives of the successive regimes propelled the formulation of privatisation policy. On the other hand, internal political dynamics played the most important role in determining the pace and ultimate implementation level of the privatisation programmes. Successive regimes adopted or implemented the donors' prescribed policy measures only to the extent that maximum political benefits for them could be obtained and in a way that suited them politically.

The analysis in this chapter shows that the donors' influence was more visible at the formulation level of privatisation policy during the period under consideration. While the internal politics of the country has played the dominant role at the implementation stage.

Having very low per capita income of about US\$ 360 Bangladesh is heavily dependent on aid for its economic development.¹ The external aid now finances almost the entire public sector investment, in fact, the foreign aid component on average constitutes 95% of the development

¹ See The World Bank, *World Development Report*, U. K., Oxford University Press, 1997

expenditure of the country. During the fiscal year 1994-95 alone, it received a sum of US\$ 1739 million which constituted about 12 percent of the 1990 GDP of the country. Almost the entire Annual Development Program (ADP) is financed by foreign funds. In other words, whatever scanty infrastructural development takes place in the country is due mostly to foreign assistance rather than indigenous efforts. Therefore, it is obvious that an inescapable consequence of the over-dependence on foreign aid is that the formulation of the country's economic policy is substantially dictated or influenced by the donors. Writing in 1982, Sobhan concluded:

Bangladesh's policy makers continue to wait upon decisions on Washington, London, Tokyo and Paris before they formulate their annual development budgets, announce an import policy, formulate a food policy or even decide how many children will be born. The decision makers of the developed world hold the lifeline of any regime in Bangladesh in their hands.²

The donors usually require, as a precondition of aid, a recommendation from the World Bank and IMF that Bangladesh as a recipient country has adopted or are adopting economic policies that are regarded by them as conducive to economic growth. This generally gives the donor agencies immense power over Bangladesh's economic policy making and usually the donors tend to force economic policies of their liking.³

At the end of the calendar year, the Bank sends out a mission to Bangladesh. The members sit with Bangladeshi officials and make a survey of the economic situation of Bangladesh for the year just passed, analyse it, taking into account available foreign exchange and the capacity of Bangladesh to provide local costs for projects. They also take a forward look and try to identify future aid priorities. At the end of it, all they produce a couple of substantial documents which are considered by all donors before the meeting. In the meeting, they are put forward and discussed with the Bangladesh officials and then they either endorse them or make general comments on the matters involved.⁴

² See Sobhan, R., *The Crisis of External Dependence....* op.cit.

³ See Taslim, M. A., op.cit., p. 294.

⁴ The Aid Consortium meeting held in Paris every year has remained the most convenient forum for the donors to intervene in the policy issues of Bangladesh by setting a bulk of conditionalities. The objective of World Bank's lending program has also undergone major changes. Since 1980 it has started providing Structural Adjustment Loans (SAL) to LDCs. Lending has increasingly become policy-based, i.e. tied to pursuance of a set of predetermined policies aimed at

Table 29: Major Issues Discussed in the Aid Group Meetings

Year	Major Issues Discussed
1975-1981	Public sector efficiency, elimination of private sector investment ceiling, denationalisation, divestiture, structural reform, labour policy reform, devaluation of Tk., the government's Annual or Five-Year Plans, problems of plan implementation, structural adjustment, privatising the agricultural input distribution system
1982-1990	Privatisation and private sector development, trade liberalisation, elimination of import controls, lower tariffs, eliminate licensing, phase-out export incentives, tax reform, devaluation of Tk., financial sector reform, reduction of public sector subsidy, privatising the agricultural input distribution system, the government's Annual or Five-Year Plans,
1991-1995	Privatisation, public enterprise reform, tax reform, trade liberalisation, financial sector reform and financial discipline, privatising the agricultural input distribution system, reduction of public subsidy, streamlining the administration, retrenching the excess labour from the public sector industries, removing the quantitative restrictions, devaluation of currency

Source: Compiled from various reports on Bangladesh Aid Group Meetings, External Resources Division (ERD), Government of Bangladesh.

Privatisation, Successive Regimes and Donors' Influence

It is argued that privatisation policy in Bangladesh in first instance was locally conceived,⁵ taking into account of the exigencies of the economic and political situations which prevailed in the country during the post-liberation period. Even in the absence of the donors' pressure the government of 1972 decided to disinvest some 462 smaller enterprises left behind by the Pakistanis. Therefore, privatisation in the form of disinvestment had begun not in 1976 or 1982 but as early as 1972, long before the global popularity of the concept. And that is why it can be said that internal economic and political imperatives had also played important role in the policy initiative.

structural adjustment of the economy. See *Structural Adjustment Policies in the Third World: Design and Experience* (ed.), Dhaka, University Press Ltd., 1991.

⁵ For example see Nellis, J., Kikeri, S., "Public Enterprise Reform: Privatisation and The World Bank", *World Development*, Vol. 17, No. 5, 1989, p. 671. In this study they have commented that besides Bangladesh, countries like Chile, Malaysia, Mexico and Thailand have conducted or were in the process of conducting privatisation programmes without World Bank assistance in first place.

However, the reality is that the donors' influence over the privatisation policy gradually increased over the years with the increasing dependence of the country on foreign aid. In this section, we examine the nature and extent of donors' pressure upon the successive regimes with a specific reference to formulation and pursuance of privatisation policy. In a later part, an attempt is made to explore the factors responsible for the gap between regimes' initial compliance with the donors' suggestions and ultimate level of implementation. It can be argued that the donors have exerted pressure upon the successive regimes to adopt the privatisation policy which the country had been following for nearly two decades and this pressure was manifestly greater during the post-1975 period. The growth in dependence has encouraged donors to become more vocal on issues relating to developmental strategy, policy making and to seek in particular cases to use aid as an instrument to enforce their policy preferences. In fact, policy dictations by the donors have been more open than concealed in the formulation stage of the privatisation programmes in the post-1975 period.⁶

After the political changeover in 1975, the donors' relationship and interaction with the new military regime of General Ziaur Rahman increased many fold. The new government announced a revised investment policy in December 1975.⁷ The Bank in one of its reports in 1975 noted with appreciation this major change in the industrial policy which greatly increased the scope for the private sector.⁸ Besides, the World Bank mission Chief announced that the Bank would provide all possible support to the new government to alleviate poverty and to foster economic growth through aggressive economic reform in the industrial and agricultural sectors. In 1977, the Bank assured the government of assistance if it continued with its declared economic reform programmes. The government also reiterated its commitment to economic reforms.⁹

In fact, throughout this period, the Bank primarily lauded the government for its economic reform and particularly for its emphasis on

⁶ See for example Sobhan, R., "The Nature and Scope of a Self-Reliant Development Strategy for Bangladesh" in Rehman Sobhan (ed.) *From Aid Dependence to Self-Reliance: Development Options for Bangladesh*, Dhaka, BIDS and University Press Ltd., 1990, p. 261.

⁷ The Revised Investment Policy of 1975 emphasised more on increasing opportunities for the private sector and also increased the private investment ceiling from TK. 30 Million to TK. 100 million.

⁸ See The World Bank, *Bangladesh: The Current Economic Situation and the Short-Term Outlook*, Report No. 7102-BD. May 1975. p-ii.

⁹ See The Bangladesh Observer, a national English daily, 12 September, 1977.

the development of private sector. However, the donors have been particularly critical about the performance of the jute and textile sub-sectors in various Paris consortium meetings, and have suggested divestitures of a number of mills from these two sub-sectors along certain number of mills from other sub-sectors. The donors also suggested the removal of private investment ceiling.¹⁰ By 1978 the nominal limit on private investment was altogether removed, a large number of public sector units had been privatised, especially the smaller ones.

When the Two-Year Plan (1978-80) was published it was clear that the government had not only markedly shifted its attention from public to private sector. But at the same time, the fervour behind the industrialisation programmes introduced in the First Plan were somewhat deluded in the subsequent plan. In 1979, the Bank and the donor community suggested that government should continue its privatisation policy and reform the public sector corporations in a way that enhanced productive efficiency. It was also stated that everything possible should be done to encourage private entrepreneurs. In line with the donors' suggestions the government also declared substantial future reform packages for these sub-sectors and maximum encouragement for the private sector development.

In response, the World Bank announced a substantial increase in aid to carry out privatisation and private sector development effort.¹¹ The donors reiterated that in order to encourage the private investment in the country the government should offer soft terms loans to the private entrepreneurs. This suggestion of the donors coincided with the regime's political aspirations. It helped the regime to win the support of the rising industrialists and businessmen of the country. This particular aspect has been examined in detail in chapter three of this study. As the donors made a commitment to increase the volume of aid, the government saw it as an opportunity to attract support from the existing and newly emerging groups which would increase the credibility of the government.

In 1980, the Bank and donor community praised the government for its privatisation policy and urged the government to stop public sector

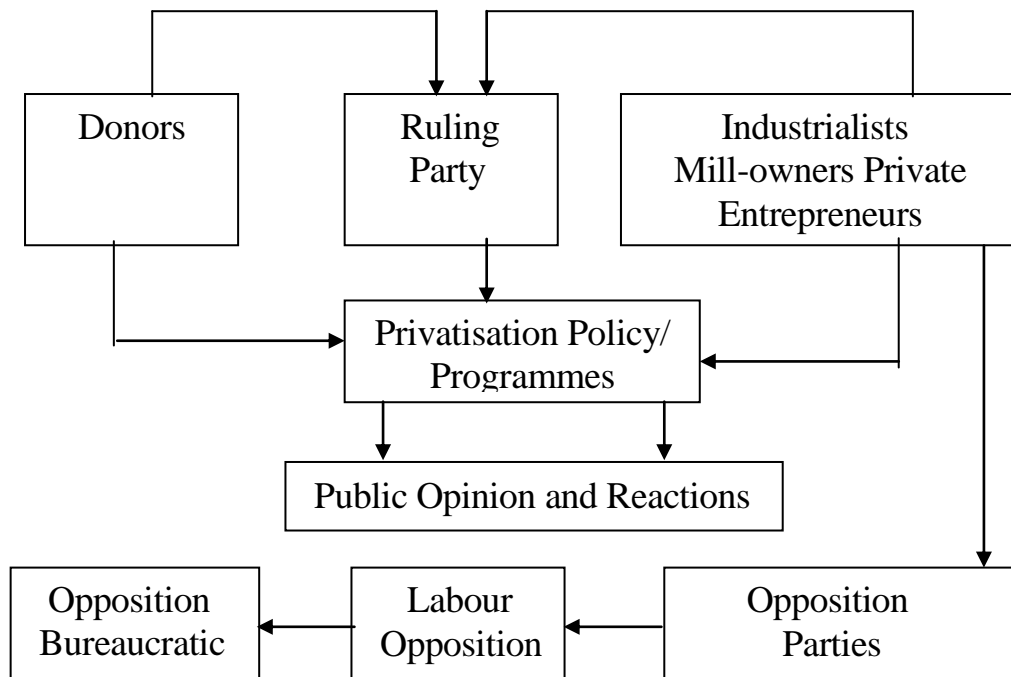
¹⁰ It should be noted here that a large group of industrialists and businessmen were also in favour of this policy and they constantly persuaded the government for greater private sector opportunities since the nationalisation period.

¹¹ See The Bangladesh Observer, a national English daily, 12 June, 1979.

subsidies and put more emphasis on the privatisation of the loss-making public enterprises. As pointed out earlier General Zia's ambition was to accommodate diverse interests by carefully weighing the potential political costs and benefits. He tried to satisfy the major donors in every possible way, particularly by incorporating their suggestions into the industrial policy. He considered that without donors' support he would not be able to realise his ultimate political ambition.

Thus by 1978, almost all the recommendations put forward by the World Bank regarding the reform of the industrial sector had been to some extent accepted, at least in spirit, by the government of Bangladesh. This trend has remained unchanged and clear cut policy statements regarding privatisation were incorporated in the 1982 and 1991 industrial policies of Bangladesh.

Figure 4: Privatisation and its Political Environment



When Ershad came to power, the donors suggested the government to embark upon divestment of public enterprises. The regime was more responsive to the donors than its predecessor and offered forceful privatisation initiatives. Ershad announced a comprehensive New Industrial Policy in 1982. The New Industrial Policy proposed to address the issues affecting the performance of the public sector through a reduction of the size of the sector via divestiture of selected industrial units. This included privatisation of jute and textile mills, and "abandoned" industrial units,¹² introduction of an effective monitoring

¹² These were the industrial units left behind by the Pakistani owners during the liberation war in 1971. These units included small, medium and large scale

system; greater managerial autonomy in pricing and so on. Thus it sought to expand the scope for private sector participation through a partial liberalisation of investment controls and introduction of greater flexibility in exercising control on access to various facilities, as intended by the donors. That policy was subsequently modified with the announcement of a Revised Industrial Policy in 1986 which contained the privatisation package along with public enterprise reform and further liberalising the investment sanctioning process and rationalising trade policies.

Time and again the donors have expressed their satisfaction over the privatisation policy announcements of the regime and assured the government of their continuing financial and technical support to the intended reform. During 1982-85 the regime privatised 33 jute mills accounted for 46% of country's manufacturing capacity and 27 textile mills accounted for 45% of the country's weaving and 50% of the spinning capacity.¹³

But as under Zia, when Ershad began to civilianise the polity, the privatisation programme reached a critical juncture and then stalled. This occurred despite pressure from the donors to proceed with the declared privatisation policy. The regime had to be responsive to the conditionality imposed by the donors as during 1986-89, the government needed a substantial amount of credit from the IMF under its structural adjustment facility. The donors suggested the government to divest itself of profitable public industrial enterprises. The regime was caught between continuous pressure from the donors in favour of privatisation on the one hand and tremendous labour and bureaucratic opposition and resistance towards the programme on the other.

In response to the donors' pressure, the Denationalisation Amendment Ordinance of June 1987 introduced a partial divestment programme which was politically a better package for the regime. Under the programme, only financially profitable enterprises were divested. The share offering was limited to Bangladeshi investors, with 49% of the total shares allocated to the private sector of which 34% to the general public, and 15% to the employees of the enterprises being divested. The government decided to retain the remaining 51% shares which was then

industrial enterprises in the jute, textile, sugar, chemical, engineering etc. sub-sectors. Besides, many commercial enterprises were also left behind by the Pakistani owners.

¹³ See The World Bank, *Bangladesh: Review of the Experience with Policy Reforms in the 1980s*, Report No. 8874, 1990, p. 93.

transferred to the corporation to be reconstituted into a holding company wholly owned by the state.¹⁴

However, the Bank took a critical view of the new arrangement for divestment. It saw the scope of the intended reform as limited and implementation as fragmented. There were no clear-cut policies concerning the fate of the vast majority of public enterprises which included a hard core of uneconomic and largely unsalvageable units unlikely to elicit interest by potential investors. The Bank suggested that the government initiate a comprehensive privatisation programme to be phased out in number of years and to include jute and textile mills.

In 1990 the government delegation was exposed to severe criticism of its economic management at the Paris Consortium Meeting.¹⁵ Various unscheduled observations were made at this meeting about the possibility of public sector reform and the donors were utterly dissatisfied about the slow pace of privatisation process. As a result, a number of donors did not make any aid pledges and it was agreed that the final pledging of aid be subject to the government giving categorical commitments to accept and implement an agreed set of policy reform. Donors wanted to see that the government had (a). taken actions it promised; (b). taken action in a way that the donors reckoned beneficial for the country; (c). made only those promises which it could keep.¹⁶ This pressure of the donors put Ershad in a politically crucial position, he agreed to the aid consortium's suggestions on economic reform in general and privatisation in particular. But he was extremely cautious about their implementation.

When Khaleda Zia came to power in 1991, there were serious doubts about the autonomy of the new regime in formulating economic policy. A senior economist of the country argued that,

Independent economic policy making by any political government, irrespective of its colour, will become well-nigh impossible because the fallen regime (Ershad) had already committed or agreed to do 'so many things' to obtain funds from the multilateral institutions. With "do's" and "don'ts" so pervasive under many on-going aid programmes, the new government will hardly find operational freedom for independent policy making on the economic front.¹⁷

¹⁴ See *the Dhaka Courier*, Dhaka, a weekly magazine, August 18, 1989.

¹⁵ See *The Holiday*, Dhaka, a national English Weekly, December 16, 1994.

¹⁶ These views had been expressed by the representative of a major multilateral donor agency in an interview published in *The Holiday*, Dhaka, a national English weekly, April 6, 1990.

¹⁷ See *The Holiday*, Dhaka, a national English weekly, February 15, 1991.

However, the new democratic regime announced a liberal industrial policy within a few months after assuming power. Privatisation was the most dominant theme.¹⁸ And alongside, the government had been championing liberal investment in the country and, in pursuance thereof, it had withdrawn restrictions on foreign exchange transactions and investment.

The recommendations of the World Bank, IMF and other donors have been adhered to. Under constant donor pressure, the government agreed to a formidable privatisation programme of 105 public industrial enterprises including large-scale jute and textile mills.¹⁹ In fact, during the initial years, the government was so beholden to the World Bank and the donors in general that it made all economic pronouncements in accordance with the donors' suggestions. At the 1992 Paris Consortium meeting, the government overwhelmed the donors with its unqualified commitment to the World Bank's economic philosophy and prescriptions. For their part, the donors were all in praise for the newest votary of market economy, deregulation and privatisation.²⁰

Upon the donors' recommendation the government created an inter-ministerial Committee on Privatisation (ICOP) to strengthen the institutional arrangements for privatisation. The ICOP was entrusted with the responsibility of developing privatisation policy, approving and monitoring specific privatisation proposals.²¹ By and large, the privatisation process had substantially slowed down as the ICOP lacked autonomy, appropriate staff and because the approval process for privatisation needed to pass through several administrative layers. According to a business leader of the country,

The politicians and the bureaucrats received the advantages of the new institutional arrangements. For both groups it meant more opportunities for rents. Besides, as there were many administrative layers, the politicians could manipulate the whole process as and when needed for individual or party's political gains.²²

Under the 1991 Industrial Policy, the government identified 40 enterprises for privatisation. At the April 1992 Aid Group Meeting government made a commitment to privatise a significant share of these

¹⁸ See The Industrial Policy of 1991, Government of Bangladesh.

¹⁹ See The World Bank, *Privatization Experience in Bangladesh, 1991-1996*, Dhaka, 1997. p. 6

²⁰ See *The Holiday*, Dhaka, a national weekly, December 20, 1991.

²¹ See The World Bank, Bangladesh: Privatization and ...op.cit., p. 108.

²² Interview with a business leader. Dhaka, 10 December 1997.

enterprises expeditiously. Of the 40 enterprises identified for privatisation, sale of 6 units was completed by mid-1992 through sale of shares to a wholly state-owned insurance company, and privatisation of only 3 other units had since been completed. Again the ADB's Industrial Sector Program Loan required that 10 textile mills and 6 other industrial units be offered for sale by December 1992 and an equal number by December 1993.²³

The Ministry of Industries met the deadline of December 1993 as desired by the ADB by offering 13 smaller units for sale, but the Textile Ministry proceeded at a snail's pace on the privatisation front.²⁴ Donors expressed their dissatisfaction with the pace of privatisation under the new regime. There was a need for the government to reconfirm its commitment and clarify the programme's objectives. The donors argued that in order to ensure the success of its privatisation programme and expedite its implementation, the government needed to streamline its administration and institute transparent privatisation procedures.²⁵

In order to strengthen the management of the on-going and future privatisation programmes the government established the Privatisation Board. The broad functions of this Board included simplification of administrative procedures with regard to privatisation approach and providing the other necessary support to privatisation transactions.²⁶ It was argued that the government created the Privatisation Board at the suggestion of the donors, but that the move also suited the regime politically.²⁷

However, as the government showed its apparently serious commitment to privatisation by creating the Board, the World Bank suggested a few swift actions to be taken in Financial Year 1993 and 1994 to assure private entrepreneurs that it was determined to implement its stated policies.²⁸ Christopher Willoughby, the resident representative of the World Bank while addressing the meeting of the local consultative group of the Bangladesh Aid Consortium on 23rd

²³ See The World Bank, *Bangladesh: Implementing Structural Reform*, The World Bank Report No. 11569-BD, March 24, 1993.

²⁴ This information is derived from a well informed civil servant based at the Ministry of Industry, Government of Bangladesh. 1996.

²⁵ See The World Bank, *Bangladesh: Implementing Structural Reform*, The World Bank Report No. 11569-BD, March 24, 1993.

²⁶ See *Privatisation in Bangladesh*, Privatisation Board, Government of Bangladesh, 1997, p. 4.

²⁷ The regime could satisfy the civil servants and also had the opportunity to manipulate the process as and when it was politically necessary. See The Holiday, Dhaka, a national English weekly, November 3. 1995.

²⁸ See The World Bank, *Bangladesh: Implementing ...op.cit.*

October, 1993 focused on three areas of reforms. The areas included; (i). privatisation; (ii). industrial deregulation and trade liberalisation and (iii). labour market improvement.²⁹

In 1993, the government signed an agreement with the World Bank known as the Jute Sector Adjustment Credit (JSAC) to restructure the jute sector. Under the agreement the productive capacity of the jute mills was to be reduced to set it in line with the export demand for jute. 18 public sector jute mills were to be privatised of which 9 mills to be in the private hands by the end of 1994. A total of 80, 000 excess workers were to be retrenched from the jute sector.³⁰

A World Bank report stated that the Bank's sympathetic but uncompromising position on this had led to a mutual respect which was missing in the past. The results of this relationship were seen in the expressed willingness of the government to undertake the politically difficult measures required prior to Board presentation of the proposed JSAC.³¹ However, the government actually could not privatise even a single unit out of the agreed 18 jute mills within the stipulated time under the JSAC. The Economic Intelligence Unit reported:

The Privatisation Board...has had few of its decisions implemented; state-owned industrial enterprises which have completed all the formalities for being sold off have, in almost all cases, not been handed over to their buyers. The planning and industry ministry has been singled out for its failure to implement the Privatisation Board's decisions because, it is alleged, it is at the beck and call of its client state-owned enterprises, which would rather not face the prospect of painful rationalisation in the private sector.³²

The World Bank expressed dissatisfaction over such delays. In 1994, the main recommendation of the donors regarding privatisation were as follows; (i). accelerate the privatisation programme; (ii). sell larger SOEs; (iii). proceed with public enterprise reform; (v). reform key aspects of regulatory environment; (vi). establish a proper approach to

²⁹ See *the Local Government Engineering Department (LGED) Newsletters*, Ministry of Local Government and Rural Development (LGRD), Government of Bangladesh, October-December, 1993.

³⁰ See *The World Bank, the Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Credit in the amount of SDR 175 Million to the People's Republic of Bangladesh for a Jute Sector Adjustment Credit*, Washington, January, 1994. p. 20. See also Mayer, P., "Reform in a Hot Climate...op.cit., p. 8.

³¹ See *The World Bank, the Report and Recommendation of the President ...op.cit., p. 20.*

³² See *Economic Intelligence Unit. 1st Quarter, 1994. Country Report: Bangladesh*, p. 16.

preparation for sale; (vii). strengthen administrative arrangements. It was also stated that the government should avoid unnecessary delays in completing on-going privatisation programmes in jute, textile and create confidence in its privatisation programme.³³

The World Bank resident representative C. R. Willoughby urged the government to close down the mills in the jute sector agreed upon earlier under the JSAC. He emphasised the need for quick implementation of the privatisation programme for increasing the viability of the jute sector.³⁴ We examine the government's responses to the pressure and suggestions of the donors in relation to the actual level of implementation in a later section below. However, it is evident from the preceding analysis that donors' policy preferences have generally been reflected in the broad declared policies under successive regimes. We have already pointed out the major themes of discussions in the aid consortium in Table 29.

Table 30: Regimes and Declared Broad Economic/Industrial Policies, 1975-95

Regime	Regime Type	Duration	Declared Broad Economic Policies
Zia (1975-81)	Civilianised Military/ Personalist	5 year 6 months	Mixed economic model with relative importance on denationalisation and private sector development, privatising the agricultural input distribution system.
Ershad (1982-90)	Civilianised Military/ Personalist	8 year 9 months	Open economic model with greater emphasis on denationalisation, privatisation, public enterprise reform and encouraging domestic and foreign private sector investment, tax reform, elimination of import restriction, financial sector reform, reduction of public subsidy
Khaleda Zia (1991-95)	Democratic/ Personalist	4 year 7 months	Open economic model with greater reliance on privatisation, encouraging private sector investment in all sectors and creating market- friendly environment, tax reform, trade liberalisation, financial sector reform and financial discipline, privatising the agricultural input distribution system, retrenchment and employment rationalization

Source: On the basis of information derived from the Ministry of Industries and the Ministry of Planning, government of Bangladesh, 1997.

³³ See The World Bank, Bangladesh: Privatization andop.cit., p. x.

³⁴ See *The Daily Star*, a national English newspaper, April 13, 1994.

Table 30 presents the broad economic policies declared by the successive regimes in response to the prescribed policy packages of the donor. Note that since 1975 privatisation and related issues have been the major agenda item for Bangladesh. Humphrey maintained that donors have quite frankly expressed their policy preference on privatisation to successive regimes and explained why the government should follow the suggested policy options.³⁵ Besides, the World Bank and the other donor- agencies have published a series of reports on the economy of Bangladesh in which they suggested a free market economy, privatisation, financial sector reform, labour restructuring, public sector reform and so on. The former Finance Minister stated that “the privatisation package we follow originates in Washington without much relevance to our country and delivered to Dhaka which the aid-hungry government accepts under severe budgetary constraints”.³⁶ According to a senior politician,

The bottom line is that very little happens in the economic policy sphere of Bangladesh without the approval of the World Bank. So the first and foremost job for any government is to convince the donors’ parliament, i.e., the aid consortium meeting rather than to bring the matter in the national parliament of the country.³⁷

There is a clear similarity between the donors’ policy perceptions and the policy revisions introduced throughout the last decade. And the donors’ policy preferences have always preceded government's decisions on economic or industrial policy revisions. It is true that successive regimes were generally responsive to the donors and incorporated their suggestions in to the industrial policy declaration but as will be seen later in the chapter, the politics of successive regimes played a dominant role in the implementation stage.

Privatisation : Politics of Implementation

Successive Bangladeshi regimes incorporated the donors’ policy preferences in their stated industrial and privatisation policies, but the actual level of implementation has always been significantly low. Bangladesh occupies a leading position in the international league table in terms of sheer number of public enterprises which had been privatised. The table below shows that three successive regimes implemented on average about 36% of the actually declared privatisation packages.

³⁵ See for instance Humphrey, T. E., op.cit., p. 215

³⁶ See *The Bangladesh Observer*, a national English daily, 22 November, 1993.

³⁷ On the basis of the interview with a senior member of the Executive Council of Bangladesh Awami League (AL), Dhaka, 23 December, 1997.

Table 31 : Regimes' Policy Declaration and Actual Rate of Implementation

Period	Declared number of public industrial enterprises to be privatised	Number of public industrial enterprises actually privatised	Implementation rate as a percentage of total number of units declared to be privatized
BNP (1975-1981)	520	255	49.04
JP (1982-1990)	460	222	48.05
BNP (1991-1995)	115	13	11.30

Source: Calculated, on the basis of the information collected from the Ministry of Industries, government of Bangladesh, 1997.

There are a number of factors which can explain the implementation gap. These are: (i). lack of governance capacity; (ii). anticipated high political cost; (iii). unwillingness of the government to implement policy considering the harmful consequences for the economy. We must make a sharp distinction between slippage due to lack of governance capacity and the slippage due to lack of the government's willingness.

We argue here that in Bangladesh lack of capacity is less important in explaining this than lack of political will. As has been already shown, successive regimes needed continuous flows of foreign aid and therefore, in principle complied with the policy preferences of the donors. However, at the same time, the regimes also had to accommodate the interests of the various politically important internal groups. Internal politics eventually came to dominate the implementation of privatisation. This is, however, not to suggest that the donors had no influence over implementation. It is evident that in specific cases the donors have been as instrumental at the implementation stage as they have been at the policy formulation stage. They generally tried to influence the implementation phase through tranching technique in disbursement of aid. However, in a report World Bank suggested;

...Clearly, tranching has not ensured satisfactory progress in the implementation of the supported action programs, either because conditionality was broadly formulated or because, when more specific, release was effected with a high degree of discretion based on partial fulfilment of non-consequential conditions, extenuating circumstances, and pledges of forthcoming policy measures...³⁸

³⁸ See The World Bank, *Bangladesh: Review of the Experience with Policy Reforms in the 1980s*, Report No. 8874, 1990, p. x.

However, in general, it can be argued that donors' influence shaped the content of the privatisation policy, whereas internal politics played the most important role in moulding implementation. In this section we trace the internal political factors which led to poor implementation. Political cost was near to nil at the policy declaration or compliance stage, but the implementation of the stated policy got bogged down as the political cost began to rise.

The implementation of privatisation policy can cost a government its support base, because the process invariably involves eliminating jobs and cutting long established subsidies. It creates winners and losers. Therefore, the party in power carefully weighs any change in economic policy affecting public sector, naturally preferring policies that benefit their constituents and help them remain in power over policies that undermine support.

While some leaders may be able to change their support base and mobilise new constituents for reform, most are inherently responsive to the supporters who put them in office.³⁹ Throughout the period under consideration, all three regimes (Zia, Ershad and Khaleda Zia) manipulated the implementation process of the declared privatisation programme in ways that served the interests of their major support base. Interestingly, there had not been much difference between regimes' constituencies of support and since the mid-1970s, there had been external as well as internal pressure in favour of privatisation programme.

There were also internal groups who opposed the privatisation. Regimes were caught between a desire to maximise their financial inflow on the one hand and, more importantly, minimising the domestic political cost of implementing privatisation. As a result, regimes played a form of a shell game with the donors, making promises one day to renew their commitment under sanctions, which they broke the next day due mainly to political reasons.

According to a World Bank official, acceleration or slowing down the implementation of the privatisation programme was directly connected to internal politics under the successive regimes. Internal politics in most cases determined the ultimate pace of implementation. A World Bank report asserted that compliance has generally been partial and reforms were not always followed through. Partial compliance and delays in carrying out actions could be attributed to political factors, administrative weaknesses and lack of political commitment by the ruling party -

³⁹ See The World Bank, *Bureaucrats in Business- Economics and Politics of Government Ownership*, Oxford University Press, 1995. p. 10

Table 32: Implementation of Privatisation Related Prescriptions of Donors, 1975-95

Donors Prescriptions	Zia Era		Ershad Era		Khaleda Zia Era	
	PP	I/NI/PI	PP	I/NI/PI	PP	I/NI/PI
Reduce public sector subsidy	Y	NI	Y	PI	Y	PI
Privatise public enterprises	Y	NI	Y	I	Y	PI
Eliminate public sector industrial subsidy	N	-	Y	NI	Y	NI
Down size the public enterprises	Y	PI	Y	PI	Y	PI
Retrench the redundant manpower	N	-	Y	PI	Y	PI
Encourage private entrepreneurs	Y	I	Y	I	Y	I
Create market friendly environment	N	-	Y	PI	Y	PI
Ensure financial discipline	N	-	Y	PI	Y	PI
Ensure good governance	N	-	Y	PI	Y	PI
Make the privatisation process transparent	N	-	Y	NI	Y	PI
Remove quantitative restrictions	Y	PI	Y	PI	Y	PI
Abolition of the ceiling private investment.	Y	I	-	-	-	-
Develop proper legal and institutional arrangements for privatisation of public enterprises	N	NI	Y	PI	Y	PI
Government must take strong and complete measures against the default borrowers of the public sector banks and financial institutions	N	-	Y	PI	Y	PI
Make the Privatisation Board autonomous and streamline the administration	N	-	N	-	Y	PI

Source: Extracted, World Bank Country Report on Bangladesh, 1975-95, also on the basis of the information derived from the donor representatives stationed in Dhaka and the Ministry of Industries, government of Bangladesh. This listing is illustrative, but not all-inclusive; it has been included to demonstrate the extent of privatisation related conditionalities by the successive regimes. Note: PP= Policy Prescribed, Y= Yes, N= No, I= Implemented, NI= Not Implemented, PI= Partially Implemented.

essentially emanating from the instinct of self-preservation.⁴⁰ It is to be noted that Table 32 is a selective survey of the implementation status of some privatisation related prescriptions of major donors. We tried to be as systematic as possible, however, its purpose was only illustrative.

It is widely recognised that the ruler's first imperative is to retain his position at the apex of government. Politician's concerns with their

⁴⁰ See The World Bank, Bangladesh: Review ofop.cit., p. ix

own security take precedence over their interest in any change or development.⁴¹ Table 32 exhibits the extent of implementation of the privatisation and related major prescriptions of donors by successive regimes between 1975 and 1995. It shows that only a limited number of privatisation-related prescriptions had been implemented fully, and in most cases they were partially implemented. In fact, the ruling party had not implemented donors' prescriptions which they considered politically costly to them. Interestingly, those prescriptions which had been implemented fully helped the ruling party build its support base or distribute patronage. For example, following the donors' prescription, three successive regimes channelled a huge amount of foreign loans to the private sector. In fact, between 1975-1995 the private sector had received over 70 per cent of the total bank credit disbursed. This prescription of the donors was implemented fully as it helped the regimes in creating and sustaining their constituencies of support. On the other hand, the regimes had been extremely cautious in dealing with the prescriptions of the donors on the outright selling of public enterprises.

The regimes carefully weighed the cost-benefit implications of each step towards privatisation. They moved fast with privatisation when the anticipated political benefit was high, and tended to slow down privatisation transactions that carried high political cost. For instance, the government headed by General Ziaur Rahman became hesitant to implement the declared privatisation policy as the opposition to privatisation began to emerge. During the initial phase of privatisation Zia received trade unions' support.⁴² However, the worker support began to erode by 1978-79 and by 1981 turned totally hostile as public-sector unions began to see privatisation as a threat. As a result, the privatisation programme of the government had slowed down, implementation halted.

The acceleration of privatisation during Ershad period strengthened the opposition. It frightened not only the public-sector trade unions but also the bureaucracy, political and ideological opponents of the regime. The most immediate, powerful and open threat to the privatisation policies came from the politically significant trade-union movement. In

⁴¹ See Wriggins, W. H., *The Ruler's Imperative: Strategies for Political Survival in Asia and Africa*, New York, Columbia University Press, 1996 and Chai-Anan, S., "The Three-Dimensional State", quoted in Manor, J., "Politics and the Neo-liberals" in Christopher Colclough and James Manor (eds.) *States or Markets? Neo-liberalism and the Development Policy Debate*, Oxford, Clarendon Press, 1991, p. 306-319.

⁴² See *The daily Ittefaq*, a national Bengali newspaper, Dhaka, 12 April, 1976.

February 1984, a conglomerate of 16 labour federations called Sramik Karmachari Oikkyo Parishad (SKOP) prepared for a massive 48-hour general strike with a demand to stop the privatisation programme. The workers were politically important to the regime. And as a direct consequence, the privatisation programme had substantially been slowed down.

Politics determined the pace of privatisation during the rule of General Ershad. By February 1988, the jute industry in Bangladesh had piled up some Tk. 700 crore in losses. Public sector losses totalled 450 crore and the private sector losses reached 250 crore.⁴³ Five private sector plants had closed down, and a World Bank team recommended the closing of at least 10 public sector jute mills, including the Adamjee Jute Mill, the largest jute mill in the world. Against the backdrop of mounting losses, international donors put pressure on the government to rationalise and modernise the mills and privatise them within the shortest possible time. On the other hand, the industry had urged larger subsidies while trade unions put pressure on the government to keep the mills operating at all cost to preserve jobs. Privatisation of jute mills was a very hard political choice for the government to make. Instead, it decided to appoint its own study group to come up with solutions.⁴⁴

The result was a new jute policy which took effect from 1 July 1989. Among the key elements in the new policy was a decision to meet the long-standing demands of the owners of the private jute mills the Bangladesh Jute Mills Association for a major subsidy for the industry. The industry felt it was now back on the road to reaching the break-even point.⁴⁵ Within a month, however, the situation changed once again. In September 1989, in a speech at the Adamjee Jute Mills outside of Dhaka, President Ershad, attempting to gain labour support, announced a costly new package of benefits for jute workers. Fearing that the increased wage bill would reduce the impact of the subsidy, the industry immediately began to press for additional concessions to make up for the cost of these wage concessions. The government assured the mill owners about further subsidies.⁴⁶ As a consequence of this politically motivated move, implementation of privatisation programmes halted once again.

Khaleida Zia made privatisation, private sector development and regulatory liberalisation the cornerstones of her economic policy

⁴³ See *The daily News*, Dhaka, 9 June 1988.

⁴⁴ The World Bank, *Bangladesh: Implementing Structural Reform*, The World Bank Report No. 11569-BD, March 24, 1993.

⁴⁵ Interview with a business leader. Dhaka, 10 December 1997.

⁴⁶ See *The daily Ittefaq*, a national Bengali newspaper, 28 September, 1989.

framework; but there had been more rhetoric than action. The industrial policy of 1991, like its predecessors in 1975, 1982 and 1986, included so many provisions on privatisation that the improbability of fulfilment had increased in direct proportion to the number of provisions.⁴⁷ In late 1993, threats of job losses following the government's decision to privatise and closures of public jute and textile mills provoked sharp responses from the employees of the affected industrial units, who staged a two-day sit-in at the gate of the Secretariat building demanding the agreement with the Bank be scrapped.⁴⁸

In fact, the political climate in the country turned hostile since early 1993 as there had been bitter conflict over opposition political party's demands for the creation of a neutral caretaker government to supervise the next parliamentary election. Ruling BNP became too cautious about privatisation especially after January 1994, as the party was defeated by the major opposition AL in the city corporations' elections in Dhaka and Chittagong- two largest and politically important cities in Bangladesh.⁴⁹ Besides, between 1993 and 1994, the government suffered in total 175 days of political disturbances, including 92 days of country wide 'hartals' (work stoppage), and 22 days of continuous non-cooperation movement orchestrated by the opposition political parties and their affiliate organised labour fronts.⁵⁰ All these political events contributed to a slow-down in the privatisation process, and the government also did not want to take any risk at all as labour unrest continued to be intensified.

Besides, a strike for higher wages by the jute workers in the private sector spread to the public sector as a protest against mill closures.⁵¹ The government had closed 4 of the 9 mills which it had agreed to close in the first phase, but the next five were already proving to be difficult. Besides, no mills which were to be privatised had been sold. The privatisation process had come to a halt. The Finance Minister stated that, "We can't close the mills this close to an election."⁵² In July 1995, the Bank announced that it would freeze its disbursement of the second tranche of the Jute Sector Adjustment Credit.⁵³

⁴⁷ See for instance Humphrey, T. E., op.cit., p. 191.

⁴⁸ See *Economic Intelligence Unit*. 1st Quarter, 1994, Country Report: Bangladesh, p. 27.

⁴⁹ See *The Dhaka Courier*, Dhaka, an English weekly magazine, October 14, 1994.

⁵⁰ See *The Dhaka Courier*, Dhaka, an English weekly magazine, March October 19, 1996.

⁵¹ See *Economic Intelligence Unit*. 1st Quarter, 1995, Country Report: Bangladesh, p. 16

⁵² See *The Holiday*, Dhaka, a national English weekly, June 12, 1995.

⁵³ See *Economic Intelligence Unit*. 1st Quarter, 1995, Country Report: Bangladesh, p. 16

To conclude the discussion, two interesting examples can be cited to demonstrate the importance of the internal politics relative to donors pressure in implementing the privatisation programmes. In 1995, under the JSAC, the BNP government had agreed to privatise ‘Hafeez Textile Mill’ situated in Chittagong. A number of local entrepreneurs took part in the bidding, and it was decided to hand the mill over to the highest bidder. In the words of a donor representative,

The government wanted to please all parties involved; the donors were told that swift action would be taken to hand over the mill to the highest bidder; the highest bidder was told that the mill would be delivered to him immediately after the procedural formalities were over; the labour leaders were told not to worry at all about privatisation of the mill.⁵⁴

However, amidst the serious workers' opposition and a volatile political situation following number of strikes organised by the major opposition political parties, the government ultimately took no action to privatise the mill.⁵⁵ The main concern of the government at that time was the forthcoming parliamentary election scheduled to be held in early 1996.

Besides, the “Adamjee Jute Mill” is one of the most striking examples to show the influence of domestic politics on privatisation. Adamjee is the largest Jute Mill in the world employing on average 30,000 workers and staff members during the period under consideration. The mill is located near Dhaka and the workers of the mill are highly politicised. According to an informed senior civil servant, each and every political party has its labour wing in the mill. The mill incurred substantial financial losses between 1975-95 and therefore needed a huge government subsidy or loss financing to remain open.

Table 33 : Subsidies and Losses Incurred by the Adamjee Jute Mill

Year	Total government Subsidy/ Loss Financing (in Crore Tk.)	Total Loss Incurred (in Crore Tk.)
1975-81	15.2	42.17
1982-90	41.49	407.94
1991-95	253.41	433.09
Total	301.1	883.2

Source: Bangladesh Jute Mills Corporation (BJMC), government of Bangladesh, 1998.

⁵⁴ Interview with a senior World Bank official, Dhaka, 21 January, 1998.

⁵⁵ See *The Sangbad*, Dhaka, a national daily newspaper, 28 August 1996.

Given the number of workers employed in the mill and the level of politicisation, the mill has been politically very important to all past regimes. Since 1975, the donor agencies have suggested that successive regimes either down-size, close down or privatise the Adamjee Jute Mill. However, during the period under review, no regime had ever taken any of these steps, despite the huge losses every year. Rather, Adamjee jute mill has been a source of political strength of successive regimes. With every change of government, there has been a shift in workers' stance, mostly towards ruling party. Workers have often been used to achieve political ends of successive regimes. In return, the governments injected money to finance the loss incurred and to keep the mill operational at the cost of the public purse.

Summary

The foreign aid donors have been one of the most important parties to the economic and industrial policy changes which have taken place between 1975 and 1995. In particular, the power and influence that the World Bank, ADB, IMF wield over the formulation of privatisation policy in Bangladesh is substantial. This chapter has demonstrated that the degree of influence which a donor can exert upon Bangladesh at the policy formulation stage is more or less directly proportional to the quantum of aid which it is providing in the related project or sector.

However, the chapter has also shown that the donors have not been able to influence the implementation of the privatisation policy. Rather, domestic politics played a more important role in moulding the implementation decisions. In practice, privatisation or any other reforms are carried out by political parties, in charge of the administration, working in a country-specific political environment. Therefore, the implementation of privatisation is often subject to political manipulation by the ruling party.

In Bangladesh the privatisation programme had begun under a military-bureaucratic regime-which had used the policy as a vehicle to win the support of powerful domestic interests on the one hand, and the endorsement of the donor community on the other. This trend continued throughout the period between 1975 and 1995 under successive regimes, including democratically elected government of Begum Khaleda Zia.

It is evident from the analysis that all three regimes had lacked real commitment to privatisation policy-process. There has been more political rhetoric than actions. Donors' influence over privatisation policy process was manifestly more at the formulation stage while internal political dynamics dominated the implementation under successive regimes.

Chapter Seven

Conclusion

Since its independence, Bangladesh has moved from an economic policy of socialist transformation to the restoration of a mixed economy by way of substantial privatisation. In fact, Bangladesh embarked on a limited scale privatisation while pursuing nationalisation policy immediately after its independence. However, the actual privatisation process began after the political changeover in 1975, and covered small and medium scale industries. The second phase—in the early eighties—covered industries of all sectors including jute and textiles. Later in this phase, wider participation of investors in the privatisation process was encouraged. The third phase began with the industrial policy 1991 that allowed privatisation in all sectors, except defence industries. Now, there exists no barrier to full foreign ownership of enterprises in Bangladesh except in defence.

Poor productivity, financial performance, and inefficiency of the public sector provided successive regimes with apparently justifiable economic grounds for the policy shift towards privatisation between 1975 and 1995. There is no denying that the economic factors contributed to the policy shift to an extent. But privatisation is not only an economic exercise, as has been strongly argued by successive regimes and their domestic and external allies. In the context of Bangladesh, privatisation has been driven by political logic more than rational economic imperatives in the sense that above all, it was used to serve the political requirements of successive regimes. Not only has privatisation been shaped by politics, it has also shaped the politics of the country to a considerable degree.

Nationalisation opened up opportunities for many to accumulate financial resources quickly. A significant number of people accumulated huge capital by way of trading and other illegal business ventures, using their connection with the ruling party. Then, those who accumulated financial resources pressed the government to commit itself to a more substantial and permanent role for private sector. The crucial issue was therefore the degree to which rent-seeking behaviour was encouraged or discouraged in the course of changes in policy.

The study has shown that between 1975 and 1995, there was a two-way dependency between the ruling politicians and powerful interests in Bangladesh. Political parties were solely concerned to solidify their support base, as their major goal was to reap the rewards of holding government office. The idea that parties were geared to pursue politically suitable policies to maintain themselves in power or win elections had implications for the way in which they managed the economic reform in general and privatisation in particular.

The Bangladesh case suggests that the ruling parties under review were not committed to any policies and hence changed them in order to achieve short-term political gains. They rewarded clienteles, deliberately selecting policy measures that could be taken advantage of only by a few, who would then return the favour with political loyalty and whose support was crucial for their political survival. To that end, successive governments doled out money from public financial institutions or nationalised banks to purchase public enterprises being divested or their shares, thus made the interest groups financially dependent and subsequently used them for their own ends.

In Bangladesh the proponents described privatisation as a panacea, a solution to the deficiencies of the public enterprise regime. The advocates claimed that privatisation would lead to significant improvements in productive efficiency, create new shareholders, lead to the growth of skilled entrepreneurs and a well-trained workforce, and end urban bias in the provision of state subsidies. Other objectives behind the policy of privatisation included, (i). reducing the government's fiscal deficit and its external and internal debt; (ii). increasing government revenues through privatisation; and (iii) taking the government out of business to the fullest extent possible.¹ Clearly, the crucial stated goal of privatisation policy was to liberate an important section of the economy from politics and to remove deficiencies of the public sector caused by politics and political manoeuvring.

This study has demonstrated that such a liberation failed to occur in Bangladesh. Certainly, public ownership was not solely responsible for or the root cause of such deficiencies. Rather, these emanated from the political imperatives of successive regimes. And therefore these constraints continued to be there even when the policy reversal occurred. This study has identified and explained the political variables for which

¹ Ministry of Industries, Government of Bangladesh, 1985.

the economic goals of privatisation tended to be subordinated to extra-economic factors.

At the heart of privatisation lies the belief that the market forces are more efficient than the state provision. Increased reliance on market forces are supposed to lead both to efficiency and to competition. Privatisation is also seen as an administrative device to make the government work better. It is assumed that management practices in the private sector are more efficient than in the public sector. The advocates of privatisation often miss the fact that privatisation is not only an economic device or administrative tool, it is very much a political weapon. The Bangladesh case suggests that moves towards privatisation are often mainly motivated by political calculations of ruling politicians and their allies.

The claims of the advocates of privatisation have primarily been based on the 'image' of the market rather than its reality. There is no conclusive evidence to support their theories on empirical grounds. One should not overlook the political interests of the privatisers and the political importance of privatisation as a policy option in changing the landscape of politics and political interests. In Bangladesh privatisation has taken place to serve the immediate political requirements of the ruling politicians more often than to serve long term economic objectives. Between 1975 and 1995, business groups dominated the political scene and regimes which came to power needed support from these groups in their bid to solidify their position. To that end, these regimes embarked on and subsequently conducted privatisation programme in ways that helped them achieving their respective political goals. Clearly, privatisation provided the same kind of political advantages for ruling politicians that were perceived to be endemic in public enterprises.

In this study the government is seen as a political entrepreneur that acts as a patron engaging in collective political actions. For politicians, those actions are self-serving and motivated by the desire to retain office. The party in power has to offer a proper package of benefits to the major actors involved in such actions. It is only in this context that government policies can be analysed in terms of serving the "public good", that is, the majority of the people. As seen from this perspective, the government itself is not likely to think in terms of maximising economic benefits for the general public, but rather in terms of targeting certain groups of voters with selective benefits.

Those groups may or may not, constitute the majority of voters in a country. Privatisation is a policy that was used to pursue this goal. Significantly, it is not so much that the interest groups involved here exploit the government. Instead, it is the government (ruling politicians) that manipulates the interest groups in order to maximise political benefits. Because of the degree of economic and social stratification of Bangladesh society, politicians played different interests off against each other and pursued policies that optimised their chances of retaining office, re-election, and consolidating political support, regardless of whether those policies promoted the long-term interests of the general public.

As has been shown, in Bangladesh the privatisation programme began under a military-bureaucratic regime—which had used the policy as a vehicle mainly to win the support of powerful domestic interests on the one hand, and to a lesser extent, the endorsement of the donor community on the other. This trend continued throughout the period with a varying degree between 1975 and 1995 under successive regimes, including the democratically elected government of Begum Khaleda Zia. Industrial policies have been changed several times, the leaders were basically driven by considerations of political convenience rather than economic rationality. Thus, privatisation was undertaken more to serve the needs of the ruling politicians for political gains than to address market or government failures or to respond to ideological predilections.

Following the first rule of politics, that one punishes one's enemies and rewards one's friends, the tactical advantage of privatising public enterprises was that public enterprises or their shares were sold to kinsmen and clients of the ruling elite at a generous discount. Those who failed to show immediate allegiance to the government or known for their intimacy with an earlier regime were discriminated. But it is to be noted that in Bangladesh the business elite generally shifted their allegiance with every change of regime. Privatisation policy has thus been used by ruling elite for individual and collective political advantages.

Strikingly, between 1975 and 1983, only 11 percent purchasers of state enterprises actually used their own financial capital to purchase privatised enterprises. The rest secured bank loans from the nationalised commercial banks, or development finance institutions. Between 1984 and 1986, 15 percent used their own capital, and this

figure rose to 18 percent between 1991 and 1995.² Thus it can be said that privatisation has led to privatising profits by the elite while socialising costs. During the Ershad era, for example, owners of privatised jute mills demanded subsidies to offset the operating losses of their respective mills. The owners through their associations persuaded the government for loss financing and threatened that failure to meet their demands might result in private sector jute mills being closed. The government subsequently announced generous loss-financing packages. Strikingly, at that time the minister for jute affairs was serving as the executive president of the private sector jute mills association which meant it was the same person who demanded subsidy and who ultimately granted subsidy to the jute mill owners.

Privatisation policy was also used as a means to launder black money accumulated and hoarded by a group of people from earlier eras. In the name of encouraging privatisation both Zia and Ershad announced that sources of unregistered incomes would not be questioned if these were used to purchase public enterprises being divested or to purchase their shares, or invested in the industrial sector. This was a deliberate strategy adopted by both of these regimes to reward their powerful backers and supporters. During the Khaleda era, the government tended to reward groups its powerful supporters in very many other ways— including advancing undue bank loans to party cronies through DFIs or NCBs, frequent rescheduling of repayment terms, writing-off loans etc.

The Bangladesh case suggests that there is no way to escape the politics of privatisation in the context either authoritarian or competitive political system. It is often argued that authoritarian rule makes it easier to push through difficult reforms.³ But Bangladesh's experience with privatisation provides only limited support for this view. Both the military regimes of 1975 and 1982 began privatisation vigorously and then became hesitant privatisers as organised opposition began to emerge. This was mainly because neither Zia nor Ershad were iron-fisted military autocrats. They emerged as military rulers. But with the passage of time, their interests as politicians drove both to civilianise their rule, and to form political parties— which necessitated accommodations with various interests.

² On the basis of the information derived from the Board of Investment and Ministry of Industries, Government of Bangladesh, 1997.

³ See Lamb, G., and Weaving, R., *Managing Policy Reform in the Real World-Asian Experiences*, The World Bank, Washington, USA, 1992. p.5.

Political imperatives dominated the privatisation process throughout this period, but the importance of different factors and actors varied, depending on the prevailing political environment at a given time. The major consideration was the relative political importance of pressure which a group could apply to the regime at a given time. The country's internal politics dictated the formulation and determined the ultimate course of privatisation. In other words, the "on again" and "off again" nature of privatisation programmes have been due to the political imperatives of successive regimes.

In Bangladesh, the initial public enterprise regime based its power on a standard coalition consisting of the political elite, the public sector managers and other public servants, organised labour, and a part of the middle class closely involved in the programmes of an interventionist state. The politics of privatisation, like those of other reform measures, consist in holding out future gains to the general public as well as to specific beneficiaries. The beneficiaries of status quo, therefore, typically attempt to paralyse the reform process before future beneficiaries of that process can be organised to support it.⁴ In the case of Bangladesh, among the beneficiaries of the status quo, those who perceived privatisation as a threat to their material interests possessed, to varying degrees, political resources with which to resist privatisation. As a result, the management of the privatisation policy process effectively became a process marked by negotiation and compromise. And once a public enterprise is in public hands for any significant period of time, there develops a strong inertia that tends to keep it in the public sector regardless of ideology or performance.

Therefore, even leaders who articulate the need to reduce state intervention in the economy and to divest the state of some of its assets hesitate to move ahead for fear of losing control of crucial political resources. This appeared to be the dilemma of Khaleda Zia, a politician who had some interest in reducing the weight of Bangladesh state in the economy, but who was also a politician in need of all the political resources available in order to maintain her electoral supremacy.

The privatisation process has not been a straightforward one, due mainly to the conflicting interests of proponents and opponents. Business groups and donors were in favour of privatisation. The public

⁴ See Bienen, H., and Waterbury, J., "The Political Economy of Privatization in Developing Countries", *World Development*, Vol. 17, No. 5, pp. 617-632.

sector trade unions were generally against it and wanted the government to keep the mills operating at all cost to preserve jobs. Civil servants were divided— some vehemently opposed it, while others were in favour. Successive regimes proceeded carefully, weighing the potential political cost and benefit.

It can be argued that public enterprises being privatised might represent a valuable political resource to be dispensed with care. In the case of Bangladesh, presidents Zia, Ershad and Khaleda Zia personally intervened to make sure that public enterprises were sold at advantageous terms to political allies. Thus, privatisation generated extensive influence peddling, rent seeking and graft by business groups. This study has shown that business and politics are very closely intertwined. Since 1975, the politics-business relationship has increasingly been strengthened because of rising business representation in successive parliaments. A relationship of mutual interdependence has developed, and this obviously, has helped business groups in obtaining state patronage through privatisation and liberal economic policies, despite changes of regime. On the other hand, in return, the regimes received much needed financial and political support.

Most strikingly, after privatisation, the efficiency and productive performance of privatised enterprises have been as dismal as under state ownership. Numerous economic explanations have been offered for this, such as the lack of an enabling environment, market distortions, low labour productivity, lack of infrastructure facilities, a limited domestic market, international competition, an unprotected market, an uncertain investment climate, etc.⁵ These factors were certainly impediments to the private sector's performance. But as the study has demonstrated, more important was the nature of political management of privatisation under successive regimes, the political motivations behind the privatisation policy process, and the manner in which public enterprises have been privatised, and the types of entrepreneurs to whom they were privatised.

During the period under review despite their differences there was a need for all successive regimes to induct an ever-widening number of

⁵ See *Privatization in Bangladesh*, Privatization Board, Government of Bangladesh, 1997.

aspirants into the network of patronage which prevented skills and experience being developed and put a premium on political access. The aspirant beneficiaries thus became politically hyperactive to secure patronage but economically dysfunctional. This leads to a pertinent question: why did they continue to get state patronage? Our survey on the owners of privatised jute and textile mill provides the most important explanation. It reveals close family and social ties between privatised jute and textile mill-owners and politicians and civil and military bureaucrats—in short, the ruling elite. That is why changes of regime did not affect the business groups' access to state power, because they remained powerful with successive regimes.

The study has shown that the state continued, despite changes of regime, to subsidise the elite groups who purchased privatised industries— by providing easy access to bank credit, frequent rescheduling of loans, writing-off interest on loans or even the principal. And in most cases, the enterprises were deliberately under-priced either to reward the existing allies, or to attract or create new clients. Privatisation has not ended or substantially changed the rent-seeking of the ruling elite. Elite groups connected to ruling party were the major beneficiaries under nationalisation schemes. These groups continued to receive patronage by the state amid regime changes, albeit in different and novel ways.

Under the public enterprise regime, the bureaucracy supplied the managerial, scientific and technical expertise required for the management of the economy. A significant section of bureaucrats, therefore, perceived privatisation as a threat to their long established “bureaucratic empire”. However, there was a section of bureaucrats particularly the upper echelon who either supported privatisation or remained indifferent to it. The upper echelon of bureaucracy played important role at different stages of privatisation—which helps us to see why senior bureaucrats in general have not lost their power and prerogatives since the introduction of privatisation policy. This also explains why senior civil servants were generally supportive to it. In fact, after the establishment of the Privatisation Board, civil servants' role in the process has significantly increased. They played important role in identifying the enterprises for sale, setting the price, arranging the tender process, and also in negotiations with the purchasers. Thus, instead of diminishing the role of bureaucracy, privatisation has actually enhanced

its regulatory role.⁶ It is to be noted that the number of bureaucrats opposing privatisation out-numbered those in favour. The obvious result was intermittent halts or retreats from the declared privatisation programmes, and this has been the case under successive three regimes under review.

On the whole, the bureaucratic support or opposition was determined by their individual or group interests. Some opposed it because they considered that privatisation would reduce their share of the rents generated at public corporations under their own ministries, while others opposed it because they did not want to give up their powers, privileges and authority. A section of bureaucrats have consistently opposed privatisation. This was mainly because their material interests were directly affected or they feared potential retrenchment as a result of privatisation. These opponents were mostly bureaucrats posted in public sector corporations, because they were directly affected.

How could successive governments persistently follow privatisation policy amid bureaucratic opposition or resistance? Regimes under review in the first instance co-opted a number of senior bureaucrats, offered them very important administrative positions to carryout privatisation programmes. One explanation of this tactic is that the regimes wanted to use the managerial skill and expertise of senior bureaucrats, to tackle the bureaucratic obstructionism. However, there were always enough civil servants who opposed privatisation to slow-down. Political interference by ruling parties has made the privatisation process significantly delay-prone. It is to be noted that politicians were motivated by a desire for personal gain as well as political gains for their respective parties. Whereas the bureaucrats generally perceived

⁶ With the increasing number of government agencies which emerged over the years to manage the process of economic reform in general and privatisation in particular paved the way for further bureaucratic proliferation. These organisations included Privatization Board, Board of Investment, Export Security Exchange Commission, Processing Zones etc. Now, a section of civil servants hold and exercise more power and authority than before and dominate the overall decision making structure of the government. This role is fulfilled by bureaucracy for several reasons. It has the skills, corporate strength and clientele contacts. See for example, Ahmed, M., "*Privatisation of Public Enterprises in Bangladesh*", a paper presented in a seminar on Privatisation and the Role of State, Public Administration Training Centre, Dhaka, 1992. See also Monem, M., "Political Economy of Privatisation in Bangladesh", *Social Science Review*, Dhaka University, No. 1, 1994.

privatisation transactions largely in terms of their individual interests. Ruling politicians generally maintained good relationships with senior bureaucrats, and forged a "coalition of convenience" to manage privatisation process.

Our findings show that owners of the privatised mills were directly or indirectly related to both politicians and the bureaucrats. Those who had political connections or paid bribes faced relatively less bureaucratic impediments. Those who had fewer political connections or refused to pay 'speed money' faced relatively more bureaucratic hassles. Importantly, most bureaucrats involved in the process generally demanded and usually got bribes from purchasers of privatised public enterprises at one stage or the other.

Bureaucrats who managed public corporations maintained strong links with the respective trade union leaders. Where these bureaucrats failed to organise themselves against privatisation as a result of persuasion by the higher-ups, they used organised labour unions. The degree of unionisation is quite high in the industrial sector and particularly in the jute and textile sub-sectors. The trade unions there are quite strong organised entities, and they can turn violent for trivial causes.

The organised industrial workers maintain rural bases and ties, and that further contributes to their political importance. The organised workers' groups are exceedingly politicised in Bangladesh, and therefore, they are often divided from within. Besides, since top leadership positions of the trade unions were occupied by the outsider labour leaders, they were easily co-opted by ruling parties, and this eventually fragmented and weakened labour resistance to privatisation.

Throughout this period, one of the common features was that with every change in regime, labour leaders and workers tended to shift their allegiance to the new ruling party. These shifts generally helped the successive regimes to implement their declared privatisation programmes. In the event of strong and persistent resistance regimes under review adopted both carrot and stick methods. Analysis shows that they resorted more to incentive-oriented approaches than to coercion.

One of the interesting trends was organised labour's retreat from a position of implacable opposition to a degree of acceptance of privatisation. The major reason for this change were the huge and

sustained losses of public sector enterprises, which often persuaded workers that the alternative to privatisation might be the closure or liquidation of the public enterprises concerned. During the period under consideration, a number of mills from various sub-sectors including jute and textile mills were closed because they were not economically viable. These closures and liquidations helped to promote organised labour unions' compliance with privatisation.

Privatisation has led to considerable labour retrenchment. Many industrial labourers did not receive their due severance payments, on time or at all. Although in principle there was a system of social safety nets, very few separated workers were retrained to give them skills for future employment. Privatisation thus has aggravated unemployment in the country. The existing labour laws in general and retrenchment regulations in particular appear at first glance to be adequate. But political manoeuvring made their enforcement problematic. Governments tend to be particularly lenient towards labour mainly for political reasons. Parties maintained close links to labour leaders to woo labour support and this created a hindrance to putting the laws into effect.

This study has revealed that successive regimes implemented privatisation programmes essentially to achieve their political objectives--creating, rewarding, sustaining and solidifying their support base. Therefore, they were responsive to different groups at different points in time. Privatisation either slowed down or accelerated, depending on the immediate political concerns of successive regimes. Resistance from unionised labour, a section of bureaucrats, and opposition parties were restraining factors. Business groups and foreign aid donors were the most important actors supporting privatisation. Foreign aid donors, especially the World Bank and the Asian Development Bank, are the strongest proponents of privatisation. It is evident that the leverage which they wield over the formulation of privatisation policy in Bangladesh is substantial. The study has demonstrated, however, that their main influence had been on the formulation of privatisation policy, and that their influence over implementation has been severely limited.

Why? This study has shown that domestic politics played a far more important role in moulding implementation decisions. Actual implementation has lagged well behind what was expected. The most

serious constraints on privatisation policy were not to be found in its design, but rather in its application by an invariably politically motivated ruling elite. Policy objectives were undermined and altered during implementation. Implementation has nearly always lagged well behind stated goals, and privatisation has been uneven, and often plagued by deliberate slow-downs by politicians.

The same political constraints which impeded implementation also lessened its impact on economic efficiency. Even the conditionality stipulations imposed by international donors have failed to produce a much movement. When donors expressed their dissatisfaction about poor implementation, Bangladeshi regimes tended to blame bureaucratic non-responsiveness, problems created by the opposition political parties or resistance posed by the labour unions. There was little that the donors could do in response. They had committed such substantial funds to Bangladesh that they had become somewhat beholden to the relationship. And crucially, to take action against poor performance on privatisation would have called the utility of this most sacred of neo-liberal policies into question. So the donors tended to tolerate poor implementation.

In practice, privatisation or any other reforms are carried out by ruling political parties, in charge of the administration, working in a country-specific political environment. Therefore, the implementation of privatisation is often subject to political manipulation by the ruling party. What is important to note is that all three regimes under review lacked real commitment to privatisation. They have been strong on rhetoric, but weak in action.

Privatisation was advocated on the consideration that the revenues earned from the sale of public enterprises could be utilised in other development activities. But the net revenue earned through privatisation was not very significant in terms of its contribution to annual development programme. In 1989, the total sale price of privatised assets was 2213.10 million Tk., constituting about 4.75 percent of the annual development programme of 1987-88.⁷ The net revenues received from privatisation in 1995 were 1806.6 million Tk. which constituted only 3.2 percent of the revised annual development outlay of 1994-95. According to informed sources in the Ministry of Industries, out of the total sale price of the privatised assets, more than

⁷ See for details Chowdhury, J. A., *Privatization in Bangladesh op.cit.*, p. 26.

50 percent remained to be collected in 1994. Moreover, successive governments provided the purchasers with various kinds of financial concessions. Thus the lack of government commitment to privatisation has meant that the revenue yield of the process has fallen short of expectations to an astounding degree.

This study has demonstrated that, to make matters worse, industrial assets or shares were deliberately under-priced. This resulted in a transfer of huge assets and money from the public domain to individuals or families linked to the ruling elite. There are now 200 families who own and control the lion share of industrial enterprises and financial institutions in post-privatisation Bangladesh. And this concentration of wealth has failed to contribute to the overall industrialisation of the country, or to increase employment or levels of private investment in the industrial sector. During the period under review, industrial growth remained sluggish, there was a decline in overall employment in the industrial sector and private investment was generally shy.⁸

This study reveals that privatisation of public enterprises has not led to constructive change, but to an unhealthy resource concentration. The benefits have tended to go to a small segment of the population which already belonged to higher income brackets and privatisation has enhanced their economic position. A majority of the purchasers' names appeared once at least in the list of country's Commercially Important Persons (CIPs).⁹ On the other hand, the majority was left out. The wider middle class interests could have partially been served only if the units being privatised were listed on the country's stock exchange. But this was done only in a limited manner in Bangladesh partially because capital market was underdeveloped during 1980s when most privatisation occurred. More importantly, outright sales of public enterprises were politically more suitable strategy for all successive regimes during the period under consideration given the nature of politics and political imperatives. As a result, privatised enterprises went to a limited number of individuals or groups of individuals who had strong political connections but little or no entrepreneurial capabilities. Sales were agreed on the condition that privatised

⁸ See Bangladesh Economic Review, Ministry of Finance, Government of Bangladesh, 1996.

⁹ See *The Holiday*, a national English weekly newspaper, Dhaka, 22 January, 1993.

industrial enterprises would continue to enjoy all the facilities they had enjoyed while in the nationalised sector.

The box 3 shows the political goals pursued by successive regimes through privatisation. Interestingly, all three regimes had broadly similar goals. In most countries, privatisation, like any other policy, will obviously involve a certain degree of politics in the process. But in Bangladesh, privatisation was initiated, designed and carried out in a way that primarily served the political objectives of successive regimes. Therefore, when tensions arose between various economic and political goals, governments attached primacy to the political aspects of privatisation—even though economic goals were officially the principal reason for this policy.

Box 3: Summary of the Broad Political Goals Pursued by Successive Regimes

Regime	Major Political Goals Pursued through Privatisation
Zia Regime	(i).Creating support base (ii). Rewarding supporters (iii). Solidifying political strength (iv). Increasing the party finances (v). Receiving the support of the business groups (vi). Expansion of the constituency (vii) Receiving donors endorsement (viii). Forming political party (ix). Winning election (x). Retaining office;
Ershad Regime	(i). Create support base; (ii). Reward supporters; (iii) Receiving support of the economically well-off groups (iv). Increasing party finance; (v). Forming political party (vi). Winning election (vii). Strengthening the economic position of the constituency of support; (viii). Receiving donors support; (ix). Creating support base within rising middle class (x). Buying votes (xi). Weakening the support for the opposition (xii). Depleting the membership of competing political groups (xiii). Retaining office
Khaleda Zia Regime	(i). Maintaining itself in power (ii). Undermine the political support of the rival political parties; (iii). Depleting the membership of competing political groups (iv). Attracting supporters by changing policy (v). Rewarding supporters and allies; (vi). Increasing the party finances (vii). Receiving donors' support; (viii). Strengthening its constituency for future political use

Successive regimes have consistently compromised on economics for political gains. This was best exemplified by politically motivated actions such as the under-valuation of privatised units, tender manipulation, and offers of bank loans from the nationalised commercial banks and development finance institutions. Besides, holding companies were created for political convenience, to neutralise opposition from the management and trade unions to privatisation and appease other interests.

In short, the formulation and conduct of the privatisation programme has been a deliberate scheme to reward and promote the interest of the groups which constituted the main support base of successive regimes, and these groups, which have come to resemble something very like a class, were in substantial measure the creation of the privatisation process. Clearly, parties in power initiated privatisation with political motives to cultivate new friends and reward old ones. They carried out the process in a way that brought maximum political and material benefits for them at the individual level and also for their respective parties. Tactical politics was all along more important than rational economic imperatives. Political convenience of the ruling party played the most important role in resolving the questions such as what to privatise, how to privatise and when to privatise. Before and after all else, Bangladesh's programme of privatisation was a political process.

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