

2003 | 2006 | 2008 | 2010 | 2012

*Bertelsmann Stiftung (ed.)*

# Transformation Index BTI 2012: Regional Findings Asia and Oceania

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# **Transformation Index BTI 2012:**

## **Regional Findings Asia and Oceania**

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# BTI 2012 | Regional Findings

## Asia and Oceania

By Aurel Croissant\*

An overview of transformation and development in Afghanistan, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Laos, Malaysia, Myanmar, Nepal, North Korea, Pakistan, Papua New Guinea, the Philippines, Singapore, Sri Lanka, South Korea, Taiwan, Thailand and Vietnam.

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This report presents the regional findings of the Bertelsmann Stiftung's Transformation Index (BTI) 2012 for Asia and Oceania. More on the BTI at <http://www.bti-project.org>.

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By population size, geographic area and aggregate GDP of the 21 surveyed countries, Asia and Oceania is the largest region in the Bertelsmann Stiftung's Transformation Index (BTI). It is also the survey's most heterogeneous unit of analysis in terms of social and economic development levels, sociocultural diversity and variance in states' forms of political organization.

Within Asian regional studies, it is customary to distinguish four subregions on the basis of geographical proximity, but also with reference to sociocultural, political and historical lines of division. These include: 1) Northeast Asia, with the two Koreas, the People's Republic of China and Taiwan (as well as Japan, which is not examined in the BTI); 2) Southeast Asia, which includes the 10 member states (excepting Brunei) of the Association of Southeast Asian Nations (ASEAN), as well as East Timor (also not included in the survey); 3) South Asia, which includes the five states of the Indian subcontinent plus Afghanistan and Sri Lanka; and 4) Oceania and a large number of small island states in the South Pacific, among which only Papua New Guinea is represented in the BTI.

This distinction is more than simply a consequence of the difficulties faced by scholars in the social sciences, humanities and cultural studies in creating a meaningful unit of observation, given the great diversity of the region. As findings from surveys including the BTI show, these differentiations also make sense in terms of both transformation theory and practice. Referencing these subregions allows us to identify patterns, trends, differences and similarities which might otherwise be lost in the generalizations. For this reason, the following presentation of the BTI findings for the 2009–2011 period will be guided at least loosely by this division.

Overall, in each of the three dimensions of the BTI assessments of the state of political and economic transformation and the transformation management, there is one core finding to be highlighted.

In the dimension of political transformation, it is the “hybridization” of political regimes which stands out. This phenomenon refers to the combination of democratic and autocratic institutions, procedures and practices, a mix that characterizes the political systems of many South and Southeast Asian countries. Minor changes in the scores for the individual criteria within this dimension have led in some cases to an overall decline in the level of democracy, as in Sri Lanka and Thailand, or alternately to small improvements, as in the Philippines. In some instances, such changes have even driven shifts in a given country's regime classification. However, abstracting from these more or less small fluctuations, the majority of states considered here are stuck in the gray zone between dictatorship and democracy. In comparison, the number of unambiguously authoritarian states or functional (“liberal”) democracies is rather small.

In terms of economic transformation, the effects of the global financial and economic crisis clearly did not cause lasting disruptions to regional development during the observation period. One reason for this was the successful adjustment strategies pursued by a number of Asian governments (i.e., South Korea, Taiwan, China), but many also benefited indirectly from China's economic strength. Overall, 16 of the 21 economies in Asia and Oceania were able to make some progress in their

transformation towards a fully functioning market economy, or at least retain the transformation status of the previous period. China, Vietnam, India and increasingly Indonesia serve as recent examples of dynamic economic reform and successful management of economic transformation within Asia. In stark contrast stand North Korea and Myanmar. In these two countries, decision makers have refused to engage in a fundamental transformation of their economic systems. Here, the economic plundering of society is not only accepted as a consequence but is a necessary condition for the continuation of the autocratic order.

The perception of Asia as the world's most dynamic region in terms of growth and development, common among policymakers, the media and the public in the West, is indeed justified, though it depends to a significant extent on a selective perception of development trends, particularly in China and India. However, economic transformation in the context of the BTI is defined in broader terms. It means, therefore, more than simply high growth rates. When components of economic transformation having to do with social policies or regulatory institutions are considered, countries such as China, India and Vietnam show significant shortcomings and structural vulnerabilities despite their remarkable economic growth rates.

Finally, a number of states show clear changes in terms of management quality relative to the BTI 2010. Management performance has deteriorated significantly over the past two years in Afghanistan, Bangladesh, Nepal, Sri Lanka, Papua New Guinea and Thailand, but has improved in Taiwan and the Philippines.

Given the considerable steering successes of the “authoritarian development projects” in China, Vietnam and Singapore in recent years and decades, these are increasingly perceived as an alternative model of development within the region and beyond. These cases seem to have succeeded in guaranteeing political stability and facilitating an economic boom, whereas many democracies in the region have been subject to crises of function, performance and trust. China and Vietnam pursue a sequential and incremental transformation strategy by which the gains associated with social and economic modernization remain unequally distributed, but nevertheless reach broad segments of the population – unlike, for example, in most Latin American countries, which are characterized by socially unjust mechanisms for the distribution of opportunities in life. The distinctive feature of “developmental dictatorships” in Asia thus lies not only in the generation of rapid growth and its consequences, which in China have included a 20-fold increase in per capita income in just a few decades (UNDP 2011) but also in the fact that these states are able to produce a comparatively large volume of public goods despite the limitations inherent to autocratic rule. Measured by the criteria and findings of the BTI 2012, however, the autocracies show only mediocre performance. To some small extent, this is because the BTI's assessment of governance capability, which makes up a quarter of the overall assessment of management, is oriented toward a model based on the principles of democracy under the rule of law and a socially just market economy. However, the management strategies of Chinese, Vietnamese and Singaporean decision makers are designed to combine autocratic rule with capitalist development. The authoritarian character of the regimes negatively affects the evaluation of consensus-building, particularly with respect to the involvement of civil society in political decision-making processes. But even on the

“system-neutral” individual questions dealing with resource efficiency or anti-corruption efforts, the authoritarian regimes overall achieve below-average values, with even China and Vietnam showing only average performance at best.

In assessing the state of development, the fact that the institutions of rule of law remain underdeveloped and serve largely to provide security to investments becomes important. Even in Singapore, which for a non-liberal political system (according to international comparative research, including the BTI) shows surprisingly high scores for the rule of law, this is strictly speaking a “rule of law for elites” (North/Wallis/Weingast 2011). Little value is placed upon guaranteeing citizens opportunities for political participation, or even on upholding basic civil rights.

## Political transformation

Based on the criteria and findings of the BTI 2012, the group of fully functioning democracies consists of Taiwan, South Korea, and the borderline case of India. The latter two countries display numerous shortcomings in terms of a democracy under the rule of law, as evidenced by the fact that India attains the highest possible score on only two of the 18 relevant questions, and South Korea on only five. However, these democracies can be considered to be consolidated. In South Korea, the quality of democracy has declined somewhat compared to the BTI 2010, largely due to deterioration in the freedoms of association and expression. Taiwan’s political system has been able to substantially improve its top ranking in terms of democracy in both regional and interregional rankings. Taiwan can therefore rightly be regarded as a successful democratic alternative to the authoritarian model of development on the mainland.

**Table 1: State of political transformation**

Democracies in consolidation Score 10 to 8	Defective democracies Score < 8 to 6	Highly defective democracies Score < 6	Moderate autocracies Score > 4	Hard-line autocracies Score < 4
Taiwan	Indonesia	Sri Lanka	Singapore	Cambodia ▼
South Korea	Philippines ▲	Nepal	Malaysia	Vietnam
India	Bangladesh		Thailand ▼	Pakistan
	Papua New Guinea		Bhutan	China
				Laos
				Afghanistan ●
				North Korea
				Myanmar

The table is derived from the BTI 2012 index data for the “political transformation” dimension. Countries are listed in order of their democracy status scores. Arrows indicate a change in category relative to the BTI 2010, while dots indicate “failing states.”



The second group of defective democracies consists of Indonesia, Papua New Guinea, Bangladesh and the Philippines. While in Indonesia, some progress in democratic transformation is evident, the position of the Philippines has improved, following a worrying trend of erosion of democratic standards under the Macapagal-Arroyo regime (2001 – 2010). But even a quarter-century after the downfall of the Marcos dictatorship (February 1986), democracy remains fragile and unconsolidated. Elections for congress and the presidency are regularly conducted, and political parties can organize and compete for votes. Political transformation has also enabled a dynamic range of associations, a diverse media landscape and democratic decentralization. However, the record of President Benigno Aquino III's government, in power since June 2010, has also been tarnished by human rights violations and corruption (Croissant 2012). In addition, political institutions have little capacity to solve political problems efficiently and effectively. The real center of political power lies with the well-established elite, whose political activity lies largely outside any mechanisms of social accountability or democratic oversight as wielded by broad segments of the population. These elites are above the law and are largely responsible for the dysfunctionality of state institutions and democratic processes.

Particularly strong are the defects of the democratic transformation Nepal and Sri Lanka, where a marked deterioration in the democracy status score can be noted. The case of Thailand, which in this edition of the BTI is no longer classified as democratic, is even clearer. This change has been driven by a number of factors, including the violent crackdown on protests in the capital of Bangkok in the spring of 2010; the massive restrictions imposed on media freedom and the freedoms of expression and assembly; and the broad-ranging political powers possessed by the military and other institutions lacking democratic legitimacy, such as the privy council and the monarchy. The elections of June 2011, which were won by the main opposition party close to the ousted prime minister Thaksin Shinawatra, have again demonstrated the deep divisions in the society, with strong support for Thaksin and the “red-shirt movement” particularly among rural voters in the northeast. In addition, for the first time in the country's recent history, the role of the monarchy – as an institution, as a power center, and even the person of the king himself – is being increasingly questioned (Croissant 2012).

In Cambodia and Malaysia, a hardening of the autocratic order was evident. In Cambodia, the relatively low level of political violence can be attributed to the fact that the ruling Cambodian People's Party, led by Prime Minister Hun Sen, is no longer reliant on brute force to control dissidents and opposition, but rather uses a “calibrated repression” (Schedler) to secure its de facto one-party rule. In Malaysia too, despite the rhetoric employed by Prime Minister Najib Tun Razak's government (in power since 2009), few steps toward liberalization and the strengthening of the rule of law have been evident. To be sure, some new measures aimed at controlling corruption have been successfully implemented; however, the scope of activity permitted to opposition and civil society groups has not expanded – an appraisal confirmed by the violent police actions against the mass protests in favor of electoral reform in July 2011.

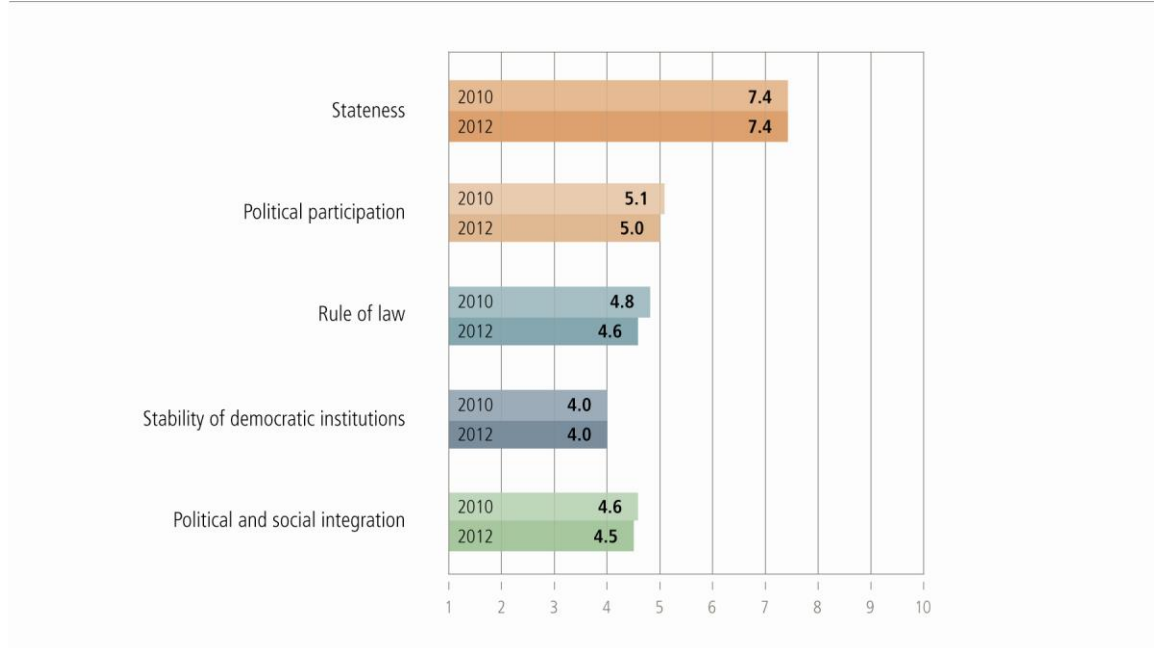
Bhutan and Pakistan, despite having elected parliaments and civilian governments, continue to be classified as moderate autocracies because institutions and authorities lacking democratic

legitimacy (such as the monarchy or military) have in both countries access to broad-ranging prerogatives, veto powers and political privileges. North Korea and Myanmar again are at the bottom of the regional ranking in political transformation. This assessment remains unchanged by the November 2010 parliamentary elections in Myanmar, the first such in 20 years. These polls, controlled by the Burmese military, in no way fulfilled minimum democratic standards, and served primarily as a means of legitimizing existing power relationships. Until the end of the review period (February 2011), the generals were still in complete control of the political process.

In comparing the development of different criteria of political transformation with the previous assessment period, regional strengths and weaknesses become evident. The region performs best on the measure of stateness. This corresponds with the established view that in Asia, and particularly East Asia, traditions of strong stateness with roots stretching far back in political history have survived into the present. These traditions represent a valuable resource for political, economic and societal actors.

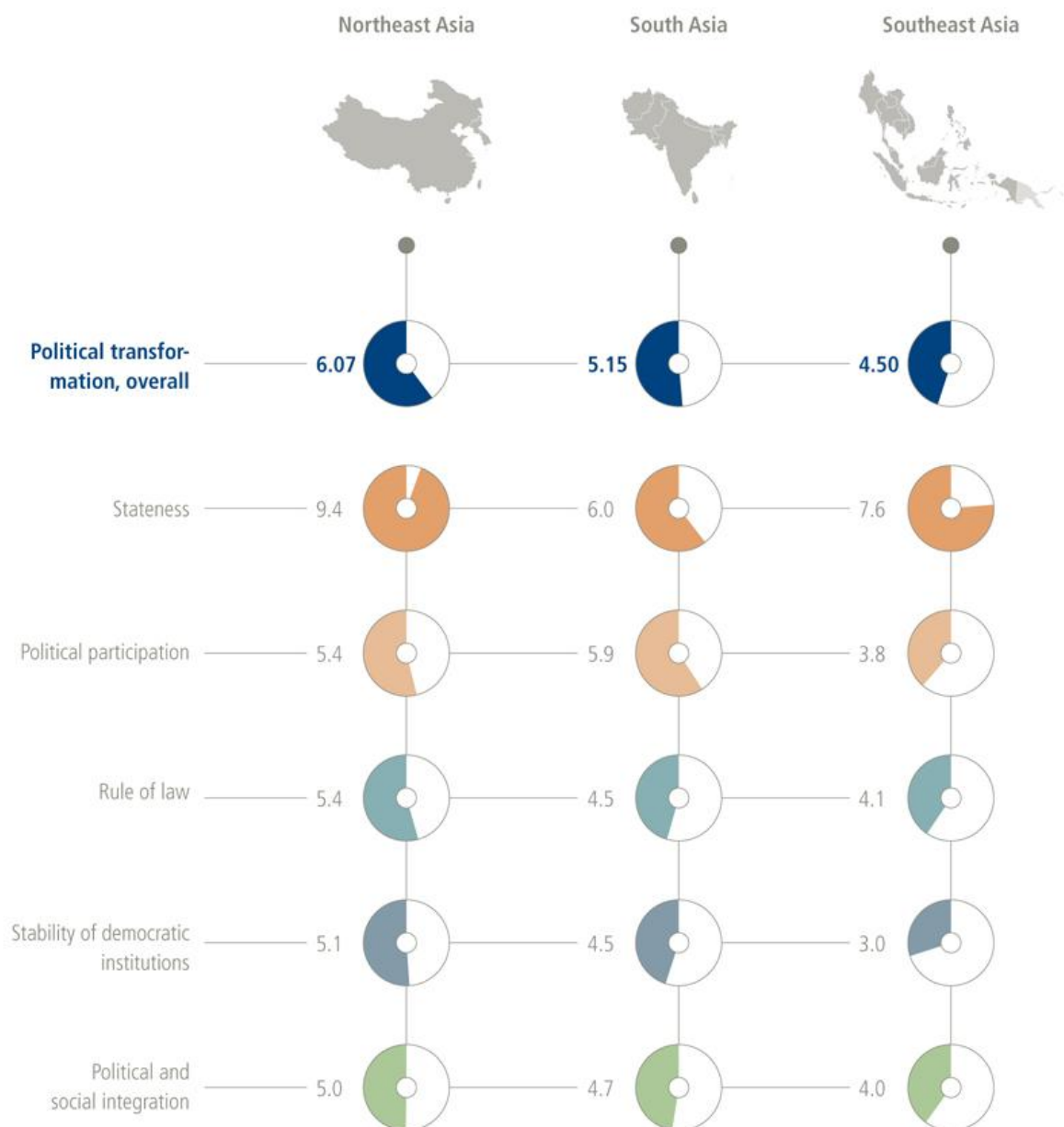
At the same time, the low scores on the criterion measuring the stability of democratic institutions in the region reflect not only the lack of such institutions in authoritarian states such as China, Myanmar, North Korea, Vietnam and Laos, but also their weaknesses in the region's "hybrid regimes" and many new democracies. The rule of law also remains a weak area, particularly the prevention and prosecution of office abuse, although it should be noted that the majority of states in the region in fact perform well on this measure in comparison to states at the same income level in other regions (see Peerenboom 2006). This is in turn associated with the often well-developed stateness and the efficiency of state institutions, as well as with the previously mentioned phenomenon of the rule of law for elites.

**Figure 1: State of political transformation by individual criteria**



In this regard, a quick glance at individual subregions in Asia is illuminating. In terms of stateness, the stability of democratic institutions and the rule of law, Northeast Asia clearly performs better than South and Southeast Asia. However, this reflects to some extent the well-advanced state of democratic transformation in Taiwan and South Korea. As in the BTI 2010, Southeast Asia is more or less clearly behind the other regions in four of the five assessment criteria. Stateness is the single exception.

**Figure 2: State of political transformation by subregion**



## Economic transformation

Like the state of democratic transformation, the level of development of the economic transformation of Asia and Oceania varies greatly. On the basis of the BTI criteria, five categories of cases can be identified. Developed market economies with functional regulatory regimes exist in South Korea, Singapore and Taiwan. These three countries also occupy top places in the BTI 2012 overall rankings. Here, economic “transformation” has reached a level comparable with that of the core group of established OECD countries, even exceeding this in some areas (see Bertelsmann Stiftung 2011). In Malaysia we find a functioning market economy (albeit with weakly anchored rules of competition and market regulation) that suffers shortcomings in terms of performance and sustainability. The largest group is that of market economies with functional flaws (nine countries), followed by the five countries with poorly functioning market economies. Bringing up the rear, as in the BTI 2010, are Afghanistan, Myanmar and North Korea.

**Table 2: State of economic transformation**

Developed market economies	Functioning market economies	Market economies with functional flaws	Poorly functioning market economies	Rudimentary market economies
Score 10 to 8	Score < 8 to 7	Score < 7 to 5	Score < 5 to 3	Score < 3
Taiwan	Malaysia	Sri Lanka	Cambodia	Afghanistan
Singapore		China	Laos	Myanmar
South Korea		India	Bhutan	North Korea
		Thailand	Pakistan	
		Indonesien	Nepal	
		Vietnam		
		Philippines		
		Bangladesh		
		Papua New Guinea		

The table is derived from the BTI 2012 index data for the “economic transformation” dimension. Countries are listed in order of their market economy status scores. Arrows indicate a change in category relative to the BTI 2010.

Although no shifts between categories took place, differences are evident between countries that maintained a relatively constant level of development and transformation, systems that demonstrated significant improvements in terms of economic transformation (a gain of at least 0.25 points for this dimension in the two years of the assessment period), and countries in which the level of economic performance and economic reform activity clearly eroded (a decline of 0.25 points or more). The first group includes a total of 14 countries. The second group is comprised by Bhutan, China, Indonesia, Sri Lanka and Vietnam. The third category consists of North Korea and the Philippines.

Researchers, policymakers and the Western public have focused particularly on economic transformation processes in China, India and Vietnam, all three dynamic and innovative systems

that have very successfully managed the change from a planned economy or “mixed” economic system (in the case of India) to a market-based economic order. These states have shown impressive records of high growth and investment rates, strong innovation capabilities (particularly China), and improvements in social living conditions for broad segments of their population. Table 3 shows the state of economic transformation (and the change relative to the BTI 2010), as well as scores on the relevant seven criteria for these three states.

**Table 3: State of economic transformation in China, India and Vietnam, overall and by criteria**

	<i>China</i>	<i>India</i>	<i>Vietnam</i>	<i>Regional average</i>
<b>State of economic transformation (overall)</b>	<b>6.57</b>	<b>6.54</b>	<b>6.18</b>	<b>5.57</b>
Changes relative to BTI 2010	+0.4	+0.1	+0.3	+0.1
Level of socioeconomic development	5	4	5	4.8
Organization of the market and competition	6.5	6.8	5.3	5.8
Currency and price stability	7	8	7	6.4
Private property	6	7	5	6
Welfare regime	5	4.5	6	4.6
Economic performance	10	10	9	6.6
Sustainability	6.5	5.5	6	4.9

The primary challenge faced by these three systems arguably remains that of counterbalancing the indirect social and political effects of growth and modernization, such as the growth of social inequality and regional developmental disparities. Social imbalances also pose a burden for political stability and economic growth, especially in China and Vietnam, which due to the authoritarian nature of their political systems, unlike India, lack democratic procedures and institutions of integration and consensus building.

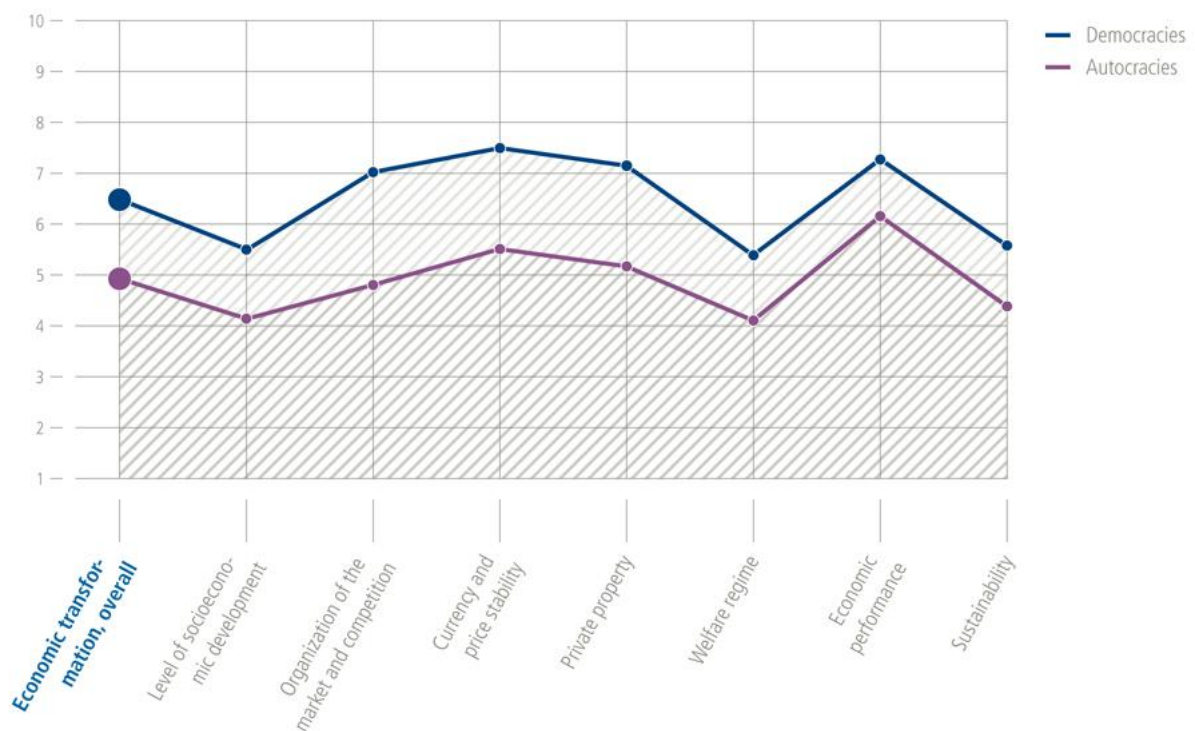
The combination of reasonably functioning democratic structures and economic transformation is the real strength of India’s transformation path. At the same time, however, in India, the social burden of development are significantly higher than in the two single-party dictatorships, and the economic transformation shows significantly lower performance levels in terms of central criteria of sustainability (including education) and socioeconomic development. For example, the share of the population that lives on less than \$1.25 (PPP) per day is 16 percent in China and 22 percent in Vietnam, but 42 percent in India. In the Human Development Index, China (place 89) and Vietnam (place 115) are ranked significantly ahead of India (place 121; see UNDP 2011).

Overall, however, the findings of the BTI 2012 do not confirm the thesis of the “superiority” of autocratic regimes in generating successful economic transformation. The comparison between the

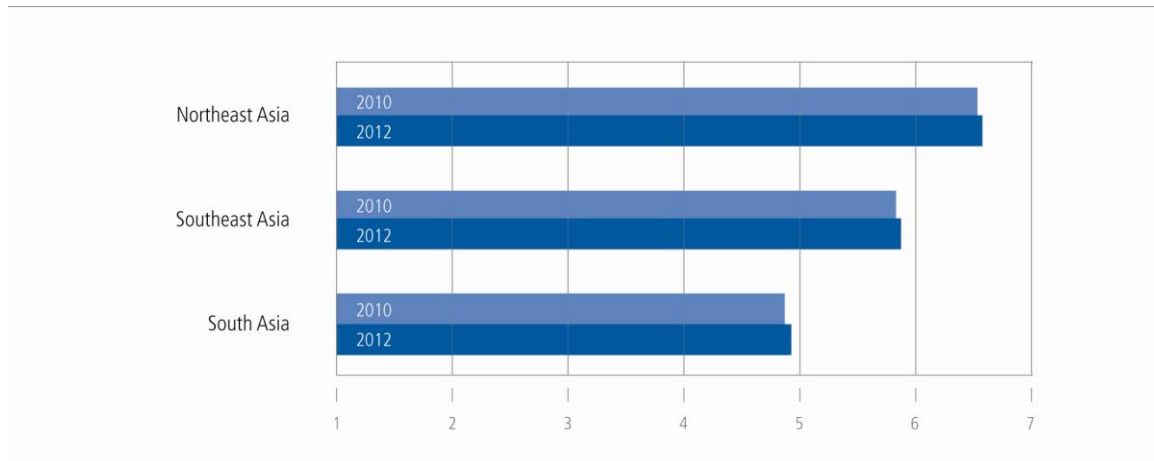
two groups of democratic and autocratic regimes, rather, shows that democracies, on average, achieve higher values in all areas than autocratic regimes.

The general presumption that Asian autocracies possess a particularly strong economic performance capability (the “authoritarian developmental state”) applies only to Singapore, China, Vietnam and – to a limited extent – Malaysia. However, there is also a wide variety of different performance levels among the group of democratic countries.

**Figure 3: State of economic transformation in democracies and autocracies, overall and by criteria**



As in the previous assessment period, significant differences between subregions are evident in the BTI 2012. In all of the BTI criteria, Northeast Asia achieved the highest average scores, and South Asia the lowest.

**Figure 4: State of economic development by subregion**

## Transformation management

With an average score of 4.70 points in the BTI 2012, the quality of transformation management in Asia and Oceania, is slightly lower than in 2010 (4.75). In interregional comparison, Asia thereby ranks behind West and Central Africa and South and East Africa. However, there are significant differences between countries and subregions. In some cases, management quality has declined considerably; this is particularly true in Thailand, but is also evident in Afghanistan, Bangladesh, Nepal, Papua New Guinea and Sri Lanka. With the exception of Papua New Guinea, this primarily reflects the limited ability of political elites and policymakers to build consensus, as well as the previously discussed crisis of “democratic governments” in defective democracies and hybrid regimes.

Taiwan and the Philippines are the only two cases showing an improvement of more than 0.3 points.

However, in the case of the Philippines, it should be noted that the political system excludes a very large proportion of the population from participation. The opportunities for acquiring political power are monopolized by the old, for many decades-dominant elites. This ensures, on the one hand, the durability and stability of democratic institutions, as these groups – which profit from the existing structures – are attentive to their observance and preservation. However, this also allows the elite to delay and block social reforms, particularly the long-demanded comprehensive land reform (Croissant 2012). The electoral victory of Benigno Aquino III, himself a product of the old sugar baron and large landowning class, illustrates the persistence of the “cacique democracy” re-established after 1986.

**Table 4: Quality of transformation management**

Very good	Good	Moderate	Weak	Failed or nonexistent
Score 10 to 7	Score < 7 to 5.6	Score < 5.6 to 4.3	Score < 4.3 to 3	Score < 3
Taiwan	India	Vietnam	Thailand ▼	Myanmar
South Korea	Singapore	China	Laos	North Korea
	Bhutan ▲	Philippines ▲	Nepal	
	Indonesien	Sri Lanka	Cambodia	
	Malaysia	Bangladesh	Afghanistan	
		Papua New Guinea	Pakistan	

The table is derived from the BTI 2012 index data for the "transformation management" dimension. Countries are listed in order of their democracy status scores. Arrows indicate a change in category relative to the BTI 2010.

The top group consists of two countries, South Korea and Taiwan, which showed very good performance in all four management criteria – steering capability, resource efficiency, consensus-building and international cooperation. However, South Korea's Lee government again showed a slight deterioration in terms of management performance in the 2009 – 2011 period. Political management in five countries is classified as good. India in particular shows less efficient resource use and weaker steering capability than do the members of the top group. In the areas of consensus-building, conflict management and international cooperation, Singapore demonstrates good to very good management performance. Regarding the efficient use of resources criterion, Singapore achieves even the highest score of all 128 countries in the BTI 2012. Decision makers in Indonesia and Bhutan have improved their performance, particularly in the areas of organizational capability and resource efficiency (Indonesia) and consensus (Bhutan).

Six countries exhibit a moderate management quality, among them China and Vietnam, two countries in which governments showed good to very good and innovative management performance in the economic arena, but at the same time (successfully) worked to counteract efforts targeting political liberalization or democratization within their societies. Overall, both countries show an above-average ability to build consensus and a high degree of international cooperation, compared to other autocracies, but attain only average or below-average results in the areas of resource efficiency (undermined particularly by corruption) and steering capability (also due to the authoritarian character of management).

In contrast, the management performances of political actors in Bangladesh, Papua New Guinea, Sri Lanka and Thailand were rated more poorly than was the case two years prior. Following the military victory over the Tamil insurgency in Sri Lanka's northern territories, President Rajapaksha's government has shown worrying authoritarian tendencies in the daily exercise of power.

In Thailand, political elites have demonstrated little ability to overcome the deep political and social cleavages within Thai society despite the return to a formally civilian government in

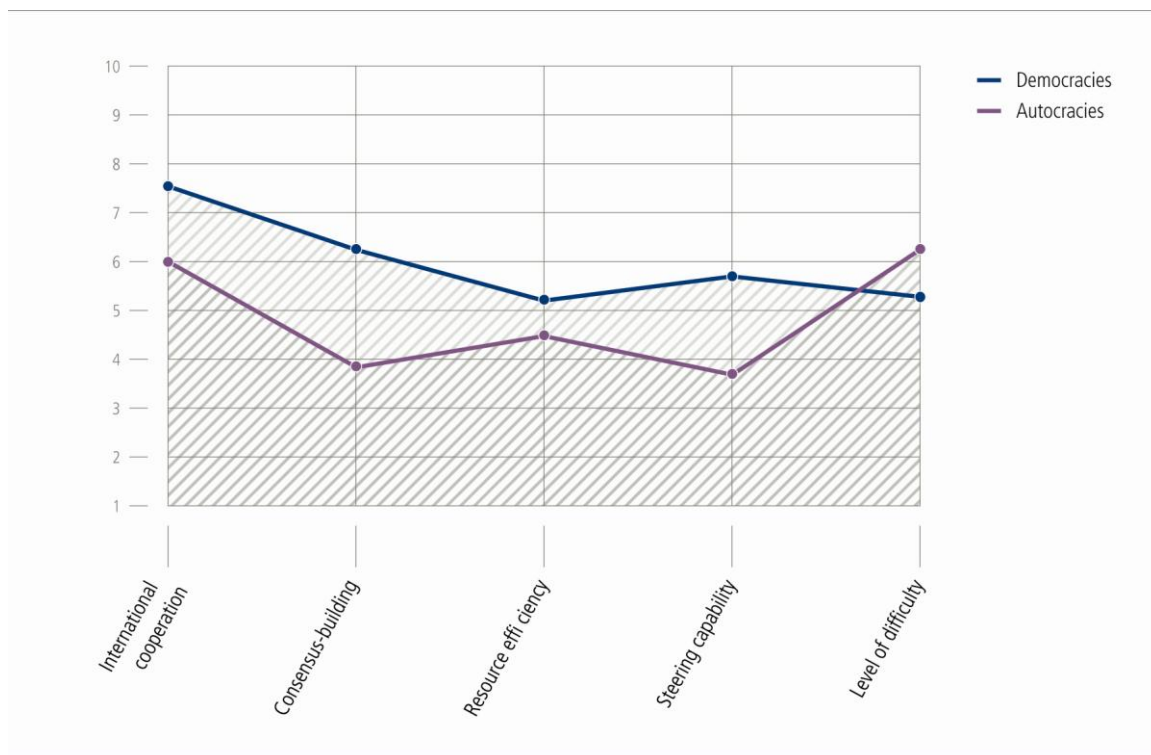


December 2007. The country's internal political turmoil culminated in May 2010 in civil-war-like clashes between the so-called red shirts and the Thai military. In Bangladesh, hopes for a learning process following Bangladesh's return to a parliamentary system were dashed by the actions of opposing political camps. Rather than a moderation of political conflict, a relapse into the political culture of intolerance is to be feared.

States with weak transformation management include Cambodia, Laos, Pakistan, Nepal and Afghanistan, as well as – for the first time – Thailand. Particularly in Afghanistan, it is evident that policymakers are not following a consistent transformation policy in either the political or the economic field. As a result, the Karzai government is viewed less and less as a trustworthy international partner. In Nepal, ongoing political gridlock, a trend already noted in the previous edition of the BTI, continued. The perpetual crisis of government and governance, a state that has lasted since the overthrow of the monarchy (2007), has meant that urgently needed reforms have remained uninitiated, and that any short-term improvement in management performance is unlikely. In North Korea and Myanmar, no transformation management has taken place. Both countries are prime examples of the determination of autocrats to hold to power by any means, even if the price is the impoverishment of their own populations.

In comparing average management performance by regime type, it becomes evident that the scope of activity for the successful management of transformation processes is as a rule considerably narrower in autocratic systems than in democracies, due to a higher level of difficulty. Despite marked differences and individual exceptions (Singapore, Malaysia), a look at factors such as level of economic development, human capital resources, the intensity of ethno-political conflict and the (lack of) civil society traditions show the fundamental difficulties often faced by societies under autocratic rule.

Autocracies, like democracies, as a rule score best in the area of international cooperation. The two exceptions are North Korea and Myanmar. Despite the high social, political and economic heterogeneity of the region, most governments in Asia and Oceania find participation in international and regional organizations such as ASEAN, ASEM or APEC, as well as engagement in bilateral and multilateral cooperation with Western governments, to be an asset in terms of transformation management. In general, most violent conflicts in the region take place within rather than between states and international politics in the region is – considering the numerous unresolved border and territorial issue – remarkably peaceful. Thus, in the assessment period there was only one new interstate conflict, the border conflict between Thailand and Cambodia over an 11th century Hindu temple. The escalation of this dispute to the point of skirmishes between the troops of the two countries can be mainly attributed to domestic causes (Croissant and Chambers 2011). While tensions on the Korean peninsula threatened to escalate during the review period following the alleged sinking of a South Korean corvette by the North Korean navy and the shelling of a South Korean island by North Korean troops, the bilateral relationship between China and Taiwan under President Ma's government eased considerably, a development due in large part to the KMT government's new determination to avoid conflict on the issue of Taiwan's national independence.

**Figure 5: State of transformation management by regime type**

Note: excluding Afghanistan

The biggest differences in management between autocracies and democracies areas are in consensus building and steering capability. These are also precisely the areas in which autocratic regimes score more poorly due to a restricted mode of transformation performance that lacks political opening as a goal (steering capability), and a ruling style that limits opportunities for participation (consensus building). However, democracies also perform more strongly in the “system neutral” area of effective resource use – in the overall criteria scores as well as on each individual question, from efficient use of assets to policy coordination through to anti-corruption policy. This is true even though the comparatively good use of resources in authoritarian systems such as Singapore and Malaysia raise the authoritarian group’s average overall.

In many countries, difficulties in using resources effectively should also be seen in the context of an underdeveloped rule of law, which hinders the success of anti-corruption efforts. This remains a substantial obstacle to the realization of greater grains from transformation, particularly for states in the moderate category of management. In this group, the inefficient use of financial and human resources and governments’ lack of coordination capacities become particular weaknesses. Often scarce public resources are distributed according to patronage considerations. Budget processes are not transparent. The military continues to devour a disproportionately large share of available resources. With the exception of Singapore and Taiwan, corruption is a defining feature of Asian

countries' administrative and political cultures. The situation in South and Southeast Asia is particularly critical.

In this context, the question of a potential causal relationship between the form of political regime and socioeconomic development – a discussion which has engaged political science and development economics for decades, but declined in importance during the last wave of democratization – has received new impetus in recent years. Criticism of democratic models of society has increased in developing countries, not least as a kind of political collateral damage resulting from the global financial crisis and its roots in the West (Faust 2010).

Authoritarian regimes like China, Singapore and Vietnam would promise a steady, reliable course oriented toward overall economic development, and would be in a better position than democracies to act as agents of modernization and use their strong positions to overcome barriers to development (ibid). The comparison of defective democracies such as Bangladesh, Papua New Guinea and the Philippines with the abovementioned three autocracies might seem to support this interpretation. However, the weak management and transformation performances in North Korea, Myanmar, Laos and Cambodia can also be contrasted with the strategies and transformation outcomes in South Korea, Taiwan, India and Indonesia. This would in turn favor the thesis that incentives for political elites to make sufficient quantities of public goods available to their citizens are stronger in democracies than in autocracies (Bueno de Mesquita et al. 2003).

## Outlook

Progress on the way toward democracy has become rare in Asia and Oceania in recent years. In most cases, political transformation towards democracy is evidently stagnating or even regressing. The primary problem has been the tenaciousness of “defects” already identified within young South and Southeast Asian democracies by earlier editions of the BTI, which in a number of countries have grown into crises of democracy. Troublesome too has been the considerable staying power of the extremely hardline autocracies such as Myanmar and North Korea. However, conditions even in the “moderate” or “soft” autocracies such as Singapore, Pakistan, Cambodia and Malaysia today promise little in the way of improvement in the rule of law. Moreover, fully half of the region's societies are autocratically governed. As in previous years, this gives the impression of a double divide, split along both political and economic lines: The stability of successful democracies (South Korea, Taiwan, India) and economically successful autocracies (above all China, Singapore, Vietnam) contrasts with the instability of political systems in the gray zone between democracy and dictatorship (Thailand, the Philippines, Bangladesh, Nepal, Sri Lanka, Pakistan).

The perspective of economic transformation allows a more positive evaluation of the regional situation. The boom economies of China and Vietnam in particular have made progress. The core

states regarded as part of the East Asian “economic miracle,” as well as India, are progressing along the path of market economic transformation. The transformation path in these countries has remained largely free of acute social conflicts. However, it is problematic that the substantial gap between the economically successful and less successful transformation countries has appeared to increase, as has that between the regions.

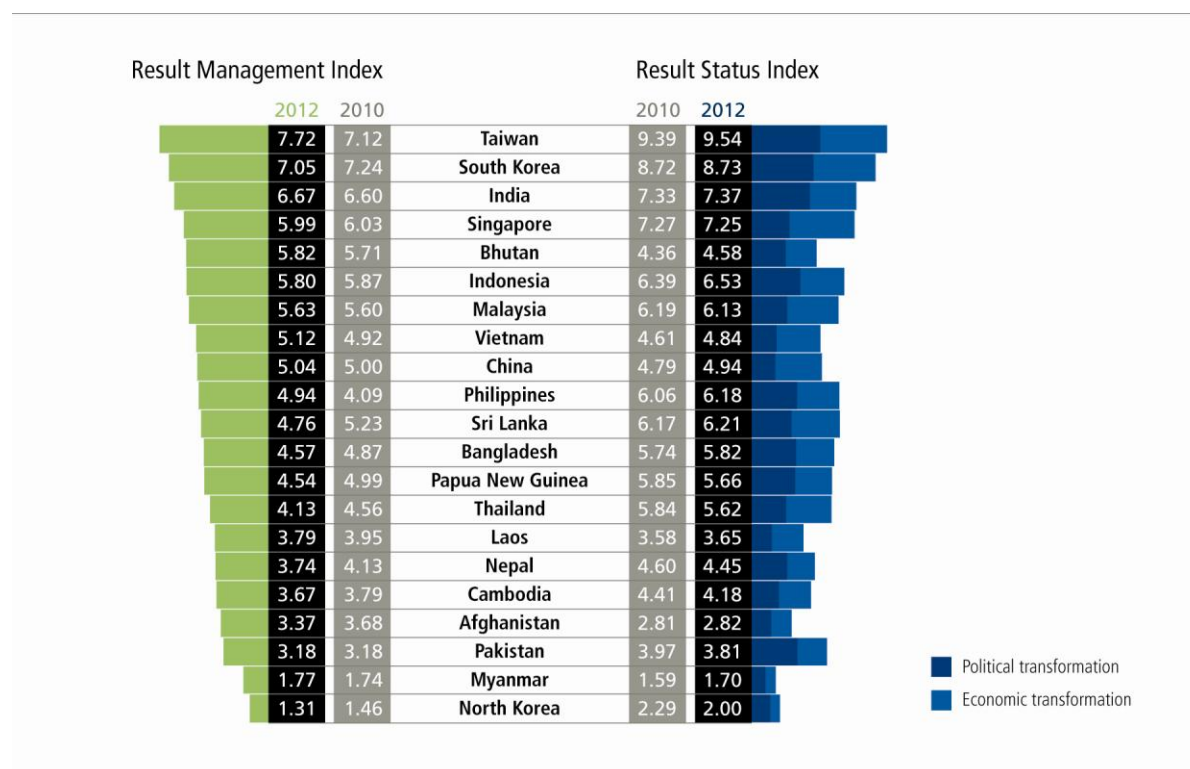
The reasons for this are manifold. Difficult structural conditions and geopolitical factors (Afghanistan, Pakistan) certainly play a role. However, the poor quality of political actors’ transformation management is often more important. The obvious examples of this are North Korea and Myanmar, but Thailand and Sri Lanka, too, have evidenced such problems in the recent past. In countries such as Nepal, Papua New Guinea, Cambodia and Bangladesh, difficult framework conditions and political actors’ reluctance to engage in reform serve as mutually reinforcing hindrances to transformation. On the other hand, Indonesia’s experience shows that even under difficult conditions, political actors’ actions can make a positive contribution to the development of democracy and the market economy.

Ultimately, the immense differences in socioeconomic performance and the quality of transformation management in the economic sphere, identified in the BTI 2012 and in earlier reporting periods, support the trenchant observation by Harvard economist Dani Rodrik noting the untenability of the “authoritarian superiority” thesis: “For every authoritarian country that has managed to grow rapidly, there are several that have floundered. For every Lee Kuan Yew of Singapore, there are many like Mobutu Sese Seko of the Congo” (Rodrik 2010: 1).

The Asian “Mobutos” reside in Pyongyang, Phnom Penh and Nay Pyi Taw, the newly constructed capital of Myanmar. But the transformation results of governments in Dhaka, Islamabad and Vientiane are also far from impressive. In point of fact, a comparison of management performance in the region’s democratic, “hybrid” and autocratic states over the past decade and in the BTI 2012 assessment period shows that the “successful” autocracies are clearly a minority. In essence, the empirical basis for the “myth” of the successfully modernizing “authoritarian model” (McFaul/Stoner-Weiss 2008) in Asia is reduced to just three cases: Singapore, Vietnam and China.

China in particular has pursued a very successful course of market reforms since the late 1970s, with high growth rates sustained across many years. Although the Communist Party is experimenting with democratic instruments at the local level, there is to date no indication that the party leadership would be willing to relinquish its hegemony and control over the political system. Human rights abuses, corruption and bureaucratic arbitrariness are integral elements in the political life of the People’s Republic of China. Despite its widely admired successes, especially in the area of poverty reduction, China remains in many regions a comparatively poor and – from the perspective of the living conditions of the majority of its citizens – underdeveloped country. The country’s future economic progress will depend in no small measure on whether the institutionalization of the rule of law and the separation between party and state institutions can be further advanced – thus, whether the Communist Party opens its political system to competition, much as it has already done in the economic realm (Rodrik 2010). Without this “dual”

transformation, and the creation of institutions for the articulation, organization and integration of dissent, politically explosive social conflict may ultimately overwhelm the state's capabilities for integration and repression, thus impairing political stability as well as economic development.



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# BTI 2012 | Afghanistan Country Report

Status Index	1-10	2.82	# 124 of 128	
Political Transformation	1-10	2.75	# 124 of 128	➔
Economic Transformation	1-10	2.89	# 122 of 128	➔
Management Index	1-10	3.37	# 108 of 128	

scale: 1 (lowest) to 10 (highest)

score

rank

trend

## Key Indicators

Population	mn.	34.4	HDI	0.398	GDP p.c.	\$	1207
Pop. growth <sup>1</sup>	% p.a.	2.8	HDI rank of 187	172	Gini Index		29.4
Life expectancy	years	48	UN Education Index	0.367	Poverty <sup>3</sup>	%	-
Urban population	%	24.8	Gender inequality <sup>2</sup>	0.707	Aid per capita	\$	203.7

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Political and economic transformation in Afghanistan is moving at a slow pace, hampered by a bleak security outlook and a resilient anti-government insurgency. There is increasing recognition that the Taliban and other anti-government elements cannot be conclusively defeated, and voices advocating negotiation with the Taliban are becoming louder. With the war entering now its 10th year, there is no sign of decisive military victory by the international forces fighting alongside the Afghan National Army against the strengthening insurgency. The level of violence has increased, and the security situation has deteriorated.

Afghanistan held its second presidential, provincial council and parliamentary elections in the years 2009 and 2010. Originally scheduled district council elections were not held. The voting process was overshadowed by irregularities and fraud, and the Independent Election Commission invalidated large numbers of votes. Corruption has spread to the point where it affects all institutions, which has led to a loss of public confidence in the government. Afghanistan was recently declared to be the second most corrupt country among a list of 180. As of the time of writing, the United States had announced that it would begin withdrawing troops from the country in July 2011. An enlarged Afghan National Army, currently numbering 134,000 individuals, is slated to take over security and defense tasks. This body's ability to handle its new security responsibilities will become evident in 2011 – 2012.

Despite record GDP growth (22.5%) in 2009 – 2010, an increase in domestic revenue collection, improvements in education and an expansion in custom duties, nearly half of Afghanistan's residents live on incomes under 120% of the poverty line. In real terms, poverty has increased and dependency on donor assistance has spiraled upward. Outside the area of education, almost all Human Development Index (HDI) indicators have deteriorated. Overall, the 2009 – 2011 period must be seen as further evidence of the highly complex nature of the state- and nation-building project in Afghanistan. Despite international engagement and the (presumable) desire of



Afghan stakeholders (NGOs, some politicians, segments of the national political elite as represented in parliament and cabinet) to deepen and strengthen Afghanistan's fragile democracy and expand the country's still-limited market system, veto powers among formally pro-government forces as well as powerful actors outside the state administration and government remain strong.

## History and Characteristics of Transformation

Afghanistan has undergone marked changes in its political history since 1747, when the Pashtun tribes first unified under Ahmad Shah Durrani. Since then, the country has experienced nearly every type of political rule, including monarchy, a republic, a socialist state, an Islamist theocracy and now a moderate democracy. Since the end of monarchical rule in 1973, the process of political transformation has been uneven and marred by internal as well as external opposition and intervention.

Afghanistan's last king, Mohammad Zahir Shah, who ruled from 1933 to 1973, oversaw a brief experiment with political liberalization in the mid-1960s. In 1973, Mohammed Daoud Khan, a former prime minister and cousin of King Zahir Shah, became the country's first president after staging a bloodless coup that brought an end to the constitutional monarchy and declaring Afghanistan a republic.

Beginning with the period of political liberalization in the 1960s, the Soviet-backed Communist People's Democratic Party of Afghanistan (PDPA) grew increasingly active in Afghan politics, ultimately seizing power in a 1978 coup led by Nur Muhammad Taraki. In the wake of its socialist revolution (also known as the Saur revolution), the PDPA introduced several changes, including secularism and extensive land reform policies, the former of which in particular evoked opposition among the conservative mujahedeen. In December 1979, amidst growing factionalist tensions within the PDPA and a nascent civil war with Islamist rebels, the Soviet Union stepped in to support the Parcham faction in the socialist government.

For 10 years, the Soviet Union provided military backing for the PDPA government in its battle against the Islamist resistance, which in turn received support from the United States, Saudi Arabia and Pakistan. The bloody and disastrous conflict ended in 1989 with the Soviet withdrawal of troops, and the government fell three years later to the mujahedeen, who chose Burhanuddin Rabbani as president. Intense infighting among various mujahedeen factions eventually led the Taliban leadership to oust Rabbani and take power in 1996. By the end of 2000, the Taliban controlled nearly 95% of the country's total territory, with the exception of a northeastern district still held by ethnic-based (Uzbek, Tajik and Hazara) anti-Taliban forces known as the Northern Alliance.

The Taliban regime, led by Mullah Mohammad Omar, established a strict Islamic government based on a fundamentalist interpretation of the Quran and traditional Pashtun tribal code. The

new government soon found itself politically isolated within the international community as a consequence of its strict religious and political outlook. During this period, the ousted regime of former President Rabbani continued to receive support from the West.

In retaliation for the events of 9/11, the United States invaded Afghanistan in late 2001, and the Taliban government collapsed shortly thereafter. Under the auspices of the United Nations, plans were developed to establish a new, broad-based government in Kabul. After a series of negotiations, the Grand Council (Loya Jirga), comprised of political and tribal leaders, selected Hamid Karzai to rule for an interim period under U.S. supervision until elections in 2004.

Efforts to restore constitutional order in Afghanistan in 2003 resulted in the adoption of a new constitution in early 2004. While the 502-member constitutional Grand Council ultimately promulgated this new constitution, deep disagreements over the power of the presidency, the relationship between Kabul and the provinces, and the adoption of official languages threatened to undermine the entire process. The new constitution established a parliamentary system with a powerful president. The presidential elections of November 2004, the subsequent inauguration of Karzai as Afghanistan's first elected chief executive in December of that year, and the National Assembly elections of September 2005 have served to reestablish constitutional authority in Afghanistan. The government nonetheless continues to have difficulty enforcing control over territory outside of Kabul, and the division of power in parliament, which is based on ethnic and tribal loyalties, has exacerbated factionalism.

Hamid Karzai won election to a second term in 2009 amid allegations of fraud. Parliamentary elections carried out in 2010 were also highly contested due to widespread allegations of irregularities. During the years under review, the government proved unable to strengthen the quality of governance, deepen its authority vis-à-vis non-state actors, or develop broader legitimacy among elites and the populace. With gains remaining limited and fragile, the future of democratic and economic transformation in "post-civil war" Afghanistan seems highly insecure.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

Conditions of law and order in Afghanistan did not improve during the period under review. Given the country's reliance on foreign forces in the face of a growing anti-government insurgency, the government of Afghanistan cannot claim to have a monopoly on the use of force. Despite the enlargement of the Afghan National Army, which numbered 134,000 soldiers at the time of writing, and assistance by an estimated 150,000 NATO-led International Security Assistance Force (ISAF) personnel in securing the population, no significant progress has been made in terms of countering the so-called Taliban insurgency. Security has declined in parts of the country that had been fairly secure until 2006, especially the northern and northeastern provinces. Only in the capital city Kabul can the handover of security responsibilities to Afghan forces be seen as a success. The number of suicide attacks and other incidences of violence declined there considerably. The U.S. and NATO-led counter-insurgency strategy, which started systematically at the end of 2009, resulted in an escalation of violence in Afghanistan without providing even localized security improvements in the rural countryside. Insurgents are not only attacking government institutions such as the Afghan National Army, Afghan National Police and government administrators (e.g., governors), but have begun making tribal elders a target as well. This shows that local security arrangements and authority structures which had supported or maintained neutrality toward the government have lost influence and become highly vulnerable to violent attack. Despite the coalition forces' claims that 2010 showed better performance than did 2009, the announcement that coalition forces would begin withdrawal in July 2011 has created uncertainty and potentially even undermined security in the short and medium term. The year 2010 saw the highest death toll among civilians, national and international security forces in Afghanistan since 2001.

Monopoly on the  
use of force

2

Afghanistan is a multiethnic society home to several ethnic groups, the largest of which include the Pashtuns, the Tajiks, the Hazaras and the Uzbeks. Ethnic

State identity

6

divisions such as differing local languages and cultural traditions are regularly subject to political instrumentalization, and hold the potential to increase conflict severity. For example, recent conflict history has resulted in a broad divide between Pashtuns and non-Pashtuns. Religion has the potential to serve as a unifying force if national identity, which is simultaneously a Muslim identity, is challenged from the outside. Sectarianism is gaining ground, creating cleavages between Sunnis and Shi'ites. Discrimination against entire population groups on the basis of language, sectarian orientation or other issues, as in the case of the Hazara, has a long tradition, and efforts to bridge such divides are rare. However, discrimination based on economic situation (i.e., a lack of access to basic resources, which has left large portions of the population disempowered) has led many to leave Afghanistan.

With the country constitutionally defined as an Islamic republic, all actions of Afghanistan's government have to be in accordance with the religious sensitivities of its populace and religious authorities (ulema). However, these are not fixed, but are rather subject to recurrent moods and manipulations. Religious edicts (fatwas) against persons who transgress Islamic principles are common, and typically draw criticism from liberal quarters. Liberals view these edicts as dogma that interferes with and retards the national development of the current Afghan state. Anti-government insurgents use religion, but more effectively exploit the sentiment that Afghans have never been subject to foreign rule. On these grounds, the insurgents are able to mobilize large quantities of the population to oppose "foreign occupiers" who are characterized as non-believers.

No interference of  
religious dogmas

3

Afghanistan is a centralized state, the working and resource-distribution mechanisms of which are impeded by dysfunctional resource flows both from the top down and the bottom up. This is due to endemic corruption, insufficient staff capacities, and a lack of trust in the country's future stability and development among large parts of the population. For these reasons, line ministries at the provincial level are unable to provide public services of a sufficient level of quality or reliability. Local government structures (at the district and provincial level) are understaffed and underfinanced, and thus rely largely on international donors and organizations to provide local assistance, especially in terms of infrastructure. The National Solidarity Program, which was supposed to overhaul local governance structures and provide basic infrastructure in all rural settlements between 2004 and 2006, has been unable to cover the rural countryside entirely, while its successes in the area of infrastructure provision have been undermined by a lack of follow-up and the spread of insecurity. However, the operations of this donor-financed program, administered through the Afghan government, demonstrate the seriousness of attempts to provide public services. As a result, 37% of the population is said to have access to basic sanitation facilities, and 48% to an improved water source. Similarly, efforts to construct a finance and tax administration and administer local commercial activities in Afghanistan's

Basic  
administration

2

municipalities have shown some progress. In the juridical sphere, local prosecutor offices, criminal investigation units and law enforcement bodies exist. However, the Independent Directorate of Local Governance (IDLG), set up in 2007, has not been able to effectively build staff capacities within local governance institutions, whether within community and district development councils or at the provincial council level.

## 2 | Political Participation

On August 20, 2009, Afghans voted to elect a president and members of provincial councils for the second time in the nation's history. These were the first elections to be organized primarily by Afghan institutions. The voting took place amid armed conflict in the southern and eastern regions and sporadic violence in other areas of the country. Most candidates entered the ballot independently, choosing not to associate themselves with the large number of political parties operating in the country. There were widespread charges of fraud and election-rigging. The Electoral Complaints Commission (ECC), tasked with investigating and adjudicating complaints, announced afterward that it had received 2,654 complaints about fraud and irregularities for the presidential and provincial council elections combined. After examination, the ECC declared about 1 million Karzai votes and about 200,000 Abdullah votes to be fraudulent, and announced that a second election round would be held, as the vote cancellation reduced Karzai's total share from 54.6% to below the 50% constitutionally required for victory. However, the second round did not take place, as runner-up Abdullah (who gathered 27.8% of the votes in the first round) withdrew, thus enabling Karzai to win the Afghan presidency for the second time. The extent of irregularities and fraudulent practices reduced the credibility of both elections. Similarly, the September 2010 parliamentary elections for the lower parliamentary house (the Wolesi Jirga) were not transparent, and were again overshadowed by allegations of substantial fraud.

As a result of the presidential elections in 2009, Hamid Karzai was reconfirmed in office despite large-scale election fraud. The pre-election campaigns waged by provincial council and presidential candidates virtually all undermined democratic principles in one way or another. The parliamentary election in 2010 resulted in a stalemate that left the parliament ineffective for months. Despite his reelection, Karzai's hold on power is weak, as his government has failed to curb the insurgency and the rise of corruption, or to improve public service delivery. Karzai is largely dependent on bargaining and negotiations with former "warlords," such as his deputy Mohammad Qasim ("Marshal") Fahim and Ismail Khan, who served as head of the Ministry for Energy and Water in the former cabinet but was rejected by the old parliament in 2010, and whose next position was still unclear at the end of

Free and fair  
elections

3

Effective power to  
govern

2

February 2011. The latter two are political actors with varying degrees of veto powers within the Afghan political system.

Association and assembly rights are provided by the Afghan constitution. During the 2009 – 2010 period, diverse associations including the Afghanistan Peace Association, the Prisoners' Rights Defense Association of Afghanistan, and the Afghan Journalist Association gradually increased their level of activity, and voiced their concerns over specific issues. Most so-called civil society organizations are donor-supported, and tailor their agendas according to the availability of donor funding rather than focusing on issues that large parts of the population would deem most needed and useful. The security situation has undermined the operation and existence of numerous associations that have sprouted in the post-Taliban period. Beyond Kabul, outreach is severely limited and subject to outright intimidation, harassment and interference by local power brokers.

Association /  
assembly rights  
4

The 2004 Afghan constitution provides for freedom of expression. However, this is restricted by the “national assets or national policy clause,” which prohibits coverage of an issue or event that might harm the rights of others or public security. Journalists and media people consider this provision to obstruct the freedom of expression. The government claims that it has allowed more freedom in this area, as there are more than 500 newspapers, 20 private television channels, 80 – 90 radio stations, and numerous interest groups that today inform the public. However, official censorship continues, and journalists have been intimidated and subjected to violence. Some have lost their life for raising their voice in this highly divided society. Large parts of the population remain uninformed, and have access only to biased information that ranges from official news to rumors and “news” spread via modern technology such as mobile phones or DVDs. As a result, the population is skeptical and unsure as to what is true or not.

Freedom of  
expression  
4

### 3 | Rule of Law

The Afghan constitution provides for separation of powers between the executive and the parliament. However, the president has a strong constitutional role. The office combines the powers exercised by the king and prime minister under the country's 1964 constitution. The parliament is tasked with checking the powers of the president and the government. The parliament did not approve all the 24 nominees presented by the president for confirmation after his reelection in 2009. The constitution places the parliament's legislative process firmly under government control. Because the president is not dependent upon the parliament for his election, he can fully assert his role as an executive. Despite this powerful role, he has been target of criticism for not moving decisively on various governance issues.

Separation of  
powers  
3

The high degree of corruption in Afghan society undermines the performance of the country's justice system. People's confidence in the judiciary declined during the period under review, as the court system has been unable to ensure fair trial standards or curtail the practice of arbitrary detention. Outcomes in the system are attainable through bribes for anybody possessing the adequate financial means or personal relationships. Reports describing extrajudicial actions by the United States and its coalition partners have bolstered the population's distrust in the judiciary, and have significantly undermined efforts to maintain the rule of law. Afghans continue to view traditional dispute resolution mechanisms such as community or tribal councils (jirga and shura) more positively than the formal justice system, because they often deliver justice more cheaply and more quickly than can the government. The Independent Election Commission criticized the Supreme Court for investigating complaints of fraud and irregularities in the 2010 parliamentary elections, as this was contrary to the provisions of the constitution. However, it was President Karzai himself who assigned the body this task. Election officials criticized the fact that neither the attorney general nor the Supreme Court had the authority to change the final results declared by the commission in November 2010. The judiciary remains subservient to the government; for this reason, people's trust in the institution has not improved.

Independent  
judiciary  
2

Afghanistan is plagued by rampant corruption. This has hindered economic development and contributed to the country's deepening poverty. Prosecution of office abuse is unlikely given the current security apparatus, including the police and judicial system. Officials engage in abuses including arbitrary arrest and detention, torture, extortion, and extrajudicial killings.

Prosecution of  
office abuse  
2

Afghans have started enjoying some civil rights due to the transition process set in motion after the fall of the Taliban regime in 2001. The hopes connected to this process, which promised the efficient rule of law and effective government structures, have since eroded. Because police and judicial institutions largely lie under the influence of local and national power brokers, the protection of civil liberties is not assured. Mechanisms theoretically in place to ensure citizen's rights exist only on paper, and their application can be pursued – if at all – through personal relationships and patronage structures, certainly not the process foreseen in the constitution.

Civil rights  
2

#### 4 | Stability of Democratic Institutions

Democratic institutions aside from the formally elected ones such as the president and the two houses of parliament (for which any “democratic” element is limited to the conduct of elections) are few. At the subnational level, provincial councils were elected, for a second time in 2009; however, their mandate is limited and largely undefined, and poorly understood even by the elected council members. None of

Performance of  
democratic  
institutions  
3

these institutions have developed the potential to bring about change. Officeholders in the parliament as well as in provincial councils are largely self-interested individuals who in most cases are not working on behalf of their ostensible constituency, but are rather seeking to further their own family or clan interests. These figures' motivation to run for public office was the opportunity to win access to government and foreign funding. Similarly, public offices appointed by the interior minister and the president at the provincial and district levels are typically sold, rather than staffed through any merit-based considerations.

The international donor community and the United States in particular claim to be committed to the stabilization of democratic institutions. However, a larger share of money goes into combating the insurgency. Afghan actors' expressions of support for democratic institutions must be seen as a mode of paying lip service to the donor community, which is the major funder of the national budget. These institutions are in fact systematically undermined by these actors' actual practices.

Commitment to  
democratic  
institutions  
3

## 5 | Political and Social Integration

Although more than 110 registered political parties exist in Afghanistan, they do not represent large constituencies. In June 2009, the parliament passed a new political parties law, requiring existing parties to re-register with the Ministry of Justice and demonstrate a membership base larger than 10,000 members, much higher than the 700 previously required. The development of the party system has historically been impeded by several factors, including deep public distrust toward party politics that evolved out of Marxist and Maoist movements in the 1960s and 1970s. Moreover, parties with strong ethnic bases are known to be linked with influential power brokers and their armed militias. In addition, the current voting system of single nontransferable votes results in inequitable political representation, acting as a disincentive to the creation of a party-based electoral system. Existing political parties are ineffective; for this reason, the major presidential candidates in the 2009 elections, including Hamid Karzai and Abdullah Abdullah, ran as independents. More than 80% of provincial council candidates also stood for election as independents, as did all but 1.2% of the 2,500-plus candidates for parliamentary elections.

Party system  
2

In a country where political parties are unable to play an effective role, there is little ability for public interest groups to have any impact on decision-making. As in the case of political parties, the number of interest groups increased during the period under review, but this growth had little obvious effect. Though a wide variety of networks and associations (women, business, sports, media, etc.) exist, the majority of civil society organizations follow donor-driven agendas, with very few exceptions. Many clearly profit-oriented NGOs have formed, which appear to be led by the interests of their founders rather than working on behalf of societal

Interest groups  
2



concerns or making efforts to represent the public interest. Private interests aiming at economic gains, participation in decision-making or influence in general are pursued through personal relationships and flexible informal networks. The interests of the powerless masses are not represented through interest groups in any comprehensive way.

The limited and partly enforced participation of the people in the 2009 – 2010 electoral process leads to an ambiguous picture in terms of the population's genuine interest in democratic institutions. Benefits accruing from the formal introduction of so-called democracy remain fairly minimal. Afghans are becoming cynical about these institutions, as democratization has not provided freedom, equality or development, and has not alleviated poverty. Disillusionment and disappointment are rampant, and there is a broad sense that democracy is a term with little or even harmful content. The people's democratic regime under Soviet-influenced rule had previously served to discredit any project related to the term "democracy," and since that time it has been associated with disagreeable outcomes.

Approval of  
democracy  
n/a

Trust between citizens is fairly low. Cooperation, mutual support and mobilization are focused primarily around notions of "qaum" – a term designating a common identity based on shared family, tribal, ethnic, professional or other links. Self-organization that features mutual support is rudimentary, while traditional patterns of community and collective action are highly hierarchical and inequitable. These structures are rarely contested or subject to scrutiny. Communities within Afghanistan's vast rural landscape rely on qaum relationships to arrange basic public works and local governance. Organized voluntary organizations and autonomous associations in any form are rare, and are largely limited to the capital city Kabul.

Social capital  
2

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Afghanistan's improved status in the annually released Human Development Index (HDI) – rising from 181st place out of 182 countries in 2009 to 155th out of 169 countries in 2010 – must largely be ascribed to changes in the report's methodology. Afghanistan is still among the world's 23 least developed countries. Social exclusion and marginalization based on poverty, corruption, education gaps and gender discrimination are evident in both rural and urban areas. Poverty is rampant in Afghanistan, with 42% of the population living below the poverty line and 30% just above that level. According to Transparency International,

Question  
Score

Socioeconomic  
barriers  
1

Afghanistan ranked as the second most corrupt state in the world in 2010. Long known as the world's biggest producer of opium, Afghanistan has also become the biggest producer of cannabis, with estimated production of between 1,500 and 3,500 tons a year. A correlation between drug revenues and corruption is evident. Afghans paid \$2.5 billion in bribes during the period under observation, the equivalent of almost one-quarter (23%) of Afghanistan's GDP. An estimated \$2.8 billion was generated by the illicit opium trade. Another correlation often cited is between the insurgency and opium cultivation. Approximately 80% of communities with very poor security conditions cultivated poppies, while only 7% of communities untouched by violence did so. Although no causal linkages can be drawn from either correlation, it is evident that drugs and corruption are the country's most significant income generators, together accounting for about half of the country's illicit GDP. Women are largely excluded from monetary income generation. Given the lack of employment in Afghanistan, the dominance of illicit income strategies, slow economic growth, poor living standards and the deteriorating security situation, 42% of the population today lives below the poverty line, compared to 33% in 2005.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	9707.4	11940.3	14213.7	<b>17243.1</b>
GDP growth	%	11.1	3.4	20.4	<b>8.2</b>
Inflation (CPI)	%	8.5	30.6	-8.3	<b>0.9</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	2.5	2.5	1.3	<b>0.4</b>
Export growth	%	-6.3	6.9	-21.0	<b>-1.6</b>
Import growth	%	9.6	-0.1	-9.2	<b>-3.3</b>
Current account balance	\$ mn.	-	-	-	-
Public debt	% of GDP	-	-	-	-
External debt	\$ mn.	1973.7	2088.9	2222.6	<b>2297.2</b>
Total debt service	\$ mn.	4.7	7.7	10.2	<b>9.2</b>

Economic indicators		2007	2008	2009	2010
Cash surplus or deficit	% of GDP	-1.8	-2.0	0.2	-
Tax revenue	% of GDP	5.3	5.2	7.3	-
Government consumption	% of GDP	10.5	9.1	10.1	<b>10.7</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	7.6	7.4	7.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.2	1.9	1.8	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Despite having a very liberal market regime, Afghanistan slipped from 165th to 167th place worldwide in the World Bank's rankings of the ease of doing business. Instability, deficient and corrupt officials, and competing traditional systems of justice hampered progress in this area. Rampant bribery by law enforcement officials has made corruption the biggest public concern, outstripping even insecurity and unemployment. According to reports, around 25% of Afghan citizens had to pay at least one bribe to police or local officials over the past year. Corruption is also evident in international organizations and NGOs. Deficient information and nontransparent procedures hamper progress.

Market-based  
competition  
3

Afghanistan has strong anti-monopoly laws governing competition in the public and private economic sector. However, poor implementation of these laws causes a lack of coordination between the public and private sector, slowing economic development. The ineffectiveness of the anti-monopoly law is in part due to officials' partiality toward friends and relatives. Another concern is traders' lack of awareness of the country's commercial laws, which results in pronouncedly negative attitudes toward the market economic system. Business financing primarily depends on profits and private savings, and fewer than 15% of transactions rely on bank transfers.

Anti-monopoly  
policy  
2

Afghanistan received observer status with the WTO in December 2004, and is working toward full accession. The Afghan-Pakistan Transit Trade Agreement, formally signed by Pakistan and Afghanistan in October 2010, envisages freer access to cross-border trade and transport networks linking Afghanistan, Pakistan and India. However, legal, regulatory and accounting systems are inconsistent with international norms. The legal framework for investment is inadequate. Accounting

Liberalization of  
foreign trade  
3

and standards regimes have not yet been established, and regulatory bodies are corrupt, weak and understaffed. The progress of reform programs is profoundly dependent on foreign experts.

Afghanistan's banking system is not mature. It is characterized by a lack of management capacities, limited operational transparency, weak legal frameworks, a poorly differentiated capital market, and a small and dysfunctional public debt market. The inability to access capital is the fourth-highest constraint for private businesses in Afghanistan. Plans to establish a stock exchange are still in their infancy. High political risks make investment decisions challenging.

Banking system  
3

## 8 | Currency and Price Stability

Afghanistan's central bank uses monetary policy measures to control inflation and exchange rate volatility. During the period under review, policy was consistent with the 12 month inflation target of 6%. The central bank also uses 28-day capital notes, and engages in the sale and purchase of foreign exchange with market dealers. The country has a managed floating exchange rate system. The exchange rate for the national currency (the afghani) appreciated to AFN 44 to \$1 in 2010, from AFN 51 to \$1 in 2009. The upward pressure on the real exchange rate is a result of illicit activities, remittances and large inflows of funds from external donors.

Anti-inflation /  
forex policy  
6

During the period under review, the Ministry of Finance introduced program budgeting for the first time in preparing the annual national budget. While the development budget is still funded entirely by international donors, 40% of the operational budget is mobilized locally. Foreign assistance accounted for 47% of GDP. The execution rates for development expenditures are very low due to government agencies' low capacity to spend funds in time. Budgeted amounts of development expenditures are around 43% for infrastructure and natural resources, 21% for agriculture and rural development, and around 14% for education. The high budgetary requirements of the security sector, deficient revenue collection and the lack of predictability in foreign aid all diminish the prospects for macroeconomic and fiscal stability.

Macrostability  
4

In Afghanistan, budgeting as a tool of national policy is weak, as most economic activities take place beyond the government's fiscal control. Afghanistan's fiscal sustainability has regressed due to rising operational expenditures, mainly for security, and it remains one of the world's most aid-dependent countries. Domestic revenue as a share of GDP fell to 6.9% in 2008 – 2009 from 7.5% in 2006 – 2007, before increasing to 9.4% in 2009 – 2010.

## 9 | Private Property

Though both Afghanistan's constitution and the international conventions to which it is a signatory in theory protect property rights, widespread corruption, the incapacity of courts, deficient property registries and the absence of a comprehensive land titling database limit actual property rights protection to a significant extent. The process of purchasing real estate, acquiring a clear land title or registering a leasehold interest is intricate and difficult. It takes almost eight months and legal fees of 4% to register property. Access to land is considered to be one of the biggest barriers to investment in Afghanistan. There is no specific law on bankruptcy and no enforcement of patent and copyright laws. Afghanistan is not a member of WTO agreements or treaties such as the Trade Related Intellectual Property Rights (TRIPS) or World Intellectual Property Organization (WIPO) agreements. In addition to pirated DVDs and software, sale of counterfeit building materials and pharmaceuticals is very common.

Property rights  
2

An institutional framework for private enterprises is in place. It was determined that 56 out of 65 state-owned enterprises (SOEs) should be privatized. Another 1320 state-owned land parcels or buildings have been identified and slated for privatization, and an evaluation of 44 SOEs, including six state-owned banks, has been carried out. In addition, the government approved proposals to liquidate, restructure and/or corporatize 25 SOEs, including three banks. Forty-three completed public auctions had transferred assets worth \$11.56 million to the private sector by September 2009. Starting a business in Afghanistan takes fewer days than the worldwide average, but when closing, firms face little opportunity to recover their investment. It is difficult and takes longer than the world average for businesses to enforce a contract, and they tend to pay comparatively high taxes.

Private enterprise  
5

## 10 | Welfare Regime

Existing social security networks rely on family and qaum relationships (see "social capital"), while official and public safety nets are underfinanced, operating in only a very limited way. Despite the approval of a \$7.5 million Pension Administration and Safety Net Project by the World Bank in 2009, no progress has been made with respect to implementation. Since the government is increasingly dependent on donor assistance to meet even its operational expenses, publicly financed safety nets are unlikely to evolve in the short or medium term.

Social safety nets  
1

Due to rampant corruption and the control of elites over employment, business and other opportunities – most of which are financially supported by the international community through donor and aid structures – discrimination is common. There is lack of transparency and of access to information regarding medium and small-scale

Equal opportunity  
2

enterprises. NGOs such as Afghan Women in Business seek to provide women with opportunities to engage in businesses, offering capital, skills and training in managing small enterprises. However, the role played by women is minimal, and they are largely marginalized. To date, the potential of women to contribute to countering the insurgency and to reconstruction of the state and economy has not been acknowledged. Though all international donors and partners emphasize gender equality, the practical realization of such demands is difficult given traditional public attitudes, moral values and practical barriers that impede women's participation in many societal realms.

## 11 | Economic Performance

Real GDP growth totaled 22.5% in 2009 – 2010, with projects of lower growth of 8% to 9% in 2010 – 2011. This record pace of growth is attributable mainly to private consumption, the security economy, higher spending and large off-budget contributions by the donors. About half the country's output and 10% of real growth is contributed by the service sector. The opium economy has been on the decline since 2007 due to crop substitution and plant diseases, but this has resulted in a price surge and higher total revenues from opium. Despite the decline of the opium economy, the number of opium-free provinces has remained stable since initiation of the monitoring process in 2005.

In 2009 – 2010, imports declined from 75% to 64% of GDP, whereas exports declined from 23% to 15%. The overall balance of payments remained in deficit, while the current account deficit for the 2009 – 2010 period was financed by grants. The currency appreciated significantly, from 51 afghani to 44 afghani per U.S. dollar. The central bank contained non-food inflation at 3%. Gross national reserves amounted to 13 months of official imports, worth \$3.8 billion. Taxes contributed 48% of the domestic revenues, while the share attributable to customs duties and fees increased to 35%. The external budget represented 60% of all public expenditure, while the size of core budget increased by 17% due to higher operating expenditures.

## 12 | Sustainability

Neither the government nor the population of Afghanistan consider environmental challenges and regulatory needs in the course of sector-based development policies, though an environmental law exists.

Despite some achievements, public expenditures have been underfunded and are largely ineffective in achieving national objectives, especially in critical service-delivery sectors such as education. Nevertheless, Afghanistan improved its

Output strength  
5

Environmental  
policy  
2

Education policy /  
R&D  
1

education index rating; according to estimates, nearly 7 million children were enrolled in school, with girls accounting for 36% of this population. University enrollment increased to 62,000. More than 80% of the 170,000 students enrolled completed the full accelerated primary cycle.

## Transformation Management

### I. Level of Difficulty

Afghanistan remains one of the world's most aid-dependent countries. Given its poor financial condition and reliance on externally provided security, the country is unable to manage the ongoing transformation effectively. The level of corruption, ranking second in the world, is an indicator of the level of misappropriation of funds, while scarce resources and a serious lack of employment opportunities contribute to the further impoverishment of the population. Regular mobilization related to ethnic divides and political cleavages, partially exacerbated by the international intervention, make it difficult for government and civil society institutions to grow and solidify.

Structural  
constraints  
10

Afghanistan has virtually no tradition of civil society. An emphasis has been placed on building civil society in such a way as to initiate public debates on issues such as Afghan national identity, counter-insurgency, peace-building and reconciliation, and ideally also to hold the government accountable. The term "Jama-ye Madani" (civil society) is unfamiliar to many Afghans, especially in rural areas, and those who do use it often fail to comprehend its essence. Numerous organizations operate under the "civil society" label, including the Afghanistan Independent Human Rights Commission, the Afghan Civil Society Forum, Network for Peace and others, but many do not have the capacities to expand their activities beyond Kabul or other large cities in relative peaceful regions, such as Herat and Mazar-i Sharif. Suspicions that these organizations are agents of the international community, and are devoted to furthering the agenda of the West (suspected to be anti-Afghan among some parts of the population) rather than strengthening the Afghan community and representing its interests, make it hard for civil society organizations to earn legitimacy, support and credibility.

Civil society  
traditions  
10

Conflict intensified in Afghanistan during the period under review. With the support of 150,000 foreign troops, the Afghan army claimed to have dismantled al-Qaeda and Taliban safe havens in southern Afghanistan. However, the insurgents have opened new war fronts in the north and west of the country, which had previously been comparatively peaceful. The year 2010 was the most violent and bloodiest since the Taliban were ousted at the end of 2001. Foreign troops suffered record numbers of deaths in 2010, with 711 soldiers killed, roughly two-thirds from America. Large numbers of civilians were also victims, with an annual average of 2,000 deaths in the last three years. Such “collateral damage” increases resentment of foreign forces on Afghan soil and plays into the insurgents’ hands. The United Nations, through the U.N. Department of Safety and Security (UNDSS), reported 2,412 civilian deaths and 3,803 injuries between January and October 2010 – a 20% rise from 2009. Some military analysts predict that violence will worsen in 2011 when international forces begin their withdrawal.

Conflict intensity  
10

## II. Management Performance

### 14 | Steering Capability

Question  
Score

The government is unable to set forth strategic priorities in any policy field. The Prioritization and Implementation Plan, 2010 – 2013, which was launched as a component of the Afghan National Development Strategy in July 2010, contains ambitious goals for better governance but no clear milestones detailing how to achieve these in the face of growing challenges. Against the backdrop of growing insecurity and a high dependence on international forces, the leadership’s capability to steer the country toward stability and good governance is very modest and functions – if at all – only on the basis of clientelistic and personal relationships rather than through the working of democratic institutions. The Afghanization of the security sector has yet to be achieved. Corruption has become endemic, and the leadership is losing credibility due to its involvement in graft and corruption.

Prioritization  
3

The government has limited capacity to implement policies and reforms. Afghans as well as international donors expect President Hamid Karzai to fulfill national commitments. For the first time, the government has highlighted the need for understanding and tackling the challenges of implementation under the Prioritization and Implementation Plan of July 2010. Given the wide variety of current challenges, the Afghan government has to set itself a target for the implementation of policies paving the way for a transition away from conflict, and

Implementation  
3



which will enable it to support itself economically with functioning democratic institutions ensuring peace, justice and equitable development.

With the country still in the grip of a violent insurgency, government officials in Afghanistan as well as their counterparts – the representatives of the international community and coalition forces – have gradually acknowledged the need for reconciliation and the reintegration of anti-government elements into the ruling circles and all spheres of life. The underlying rationale is that transition processes can only take place effectively in a peaceful environment. The international community backs the Afghan-initiated “peace jirgas” aimed at reintegrating those insurgents ready to lay down arms and support the government. However, the peace jirga of June 2010 failed, demonstrating the weakness of the Afghan government. The country’s leadership has a vision, but concrete policies, dedication, consensus-building and resources to implement policies effectively are lacking.

Policy learning  
3

## 15 | Resource Efficiency

The government is in theory committed to eliminating all forms of wasteful resource usage in order to revitalize the economy. However, the government does not in reality utilize its meager assets efficiently. Corruption is the main impediment, as assets are abused by officials at all administrative levels. Financial resources are erratic, and the exposure of regular shipments of “suitcases of money” to the presidential office from Iran hints at the ambiguous role of international influences in Afghanistan’s state- and institution-building process. The internationally supported public administration reform process and civil service reform project have yielded highly unsatisfactory results. Efforts to improve the skills of administrative staff and create a merit-based recruiting process have not yet borne fruit.

Efficient use of  
assets  
2

The government’s ability to coordinate policies internally and externally is hampered by structural constraints. Karzai has not been able to coordinate his national policy agendas with those of international donors, who themselves operate with varying mandates and resources. Total coordination failure is prevented by state officials’ personality-driven coordination with influential power brokers, and traditions of temporary alliance building and breaking.

Policy  
coordination  
3

During the 2009 – 2010 period, corruption was identified as a major impediment to development in Afghanistan. As a result, anti-corruption policies have gained primacy, with both internal and external pressure exerted on the government to take effective measures to reduce corruption. Massive aid flows have not improved economic, welfare or security conditions, in part because various significant figures, including government officials, warlords and international contractors, are involved in corruption. Karzai has pledged to fight corruption and end the culture of

Anti-corruption  
policy  
1

impunity, but this effort has to date shown no progress. The High Office of Oversight (HOO), an anti-corruption body, was created with a mandate to coordinate and oversee the implementation of the Anti-Administrative Corruption Strategy, but has to date shown no appreciable success.

## 16 | Consensus-Building

There is clearly no consensus among major political forces inside and outside the government with respect to democracy and the most fundamental aspects of state and society. The emphasis on democracy is not understood by large parts of the population due to negative experiences with what the Soviet-backed government previously called democracy, as well as to the failure of development since 2001. This lack of understanding of the idea and concept of democracy is shared by most political actors.

Consensus on goals  
3

The intensification of armed conflict in the years 2009 – 2010 demonstrates that insurgents have become influential veto powers in the process of transformation. They have undermined the rule of law and confidence in the government. Civilian casualties and security incidents increased in the months before presidential, provincial council and parliamentary elections in 2009 and 2010. Violence of this sort reduces trust in institutions. There are few reformers in the Western sense, as their scope of influence on anti-democratic actors is very limited.

Anti-democratic  
actors  
3

The government did not improve its ability to manage the worsening societal conflicts during the 2009 – 2010 period. Political and ethnic cleavages have widened, polarizing the war-ravaged society further. Pashtuns, the largest ethnic group, feel marginalized and discriminated against by the government, and contend that non-Pashtun ethnic groups, particularly Tajiks and Uzbeks, are privileged in the current political power-sharing agreement. Pashtuns claim that the international community mainly supports the non-Pashtun ethnic groups, who blame them for constituting the core of the insurgency or being pro- insurgency. The Hazara too contend that their political representation at the national level does not match their numbers in the overall population. In the Afghan National Army (ANA), an imbalance exists in favor of Tajiks; more than 50% of officers and non-commissioned officers are Tajik. The center-periphery divide remains unbridged, resulting in continued conflicts.

Cleavage /  
conflict  
management  
4

The participation of civil society in Afghan politics showed no improvement during the years under review. The number of civil society organizations has grown, but their contribution is negligible. Afghan parliamentarians do not consult civil society groups or see them as partners. The same is true for subnational government

Civil society  
participation  
3

agencies, which prevent provincial council members from playing their mandated decision-making role, and monitor the affairs of provincial government bodies.

There is a growing consensus within the Afghan government and international community as to the necessity to promote reconciliation. Attempts to eliminate Taliban and al-Qaeda by force have failed. As international forces were slated to begin withdrawing in July 2011, the Afghan government is now under pressure to negotiate and achieve reconciliation with anti-government elements. The leaders of hardcore Taliban and Hizb-e-Islami forces have declared that negotiations will be possible only once international military forces leave Afghanistan. The year 2010 has witnessed greater attention paid to the ongoing Program Tahkim-e-Solh (Strengthening Peace Program), which offers insurgents the opportunity to renounce violence and peacefully support the Afghan government, but no major breakthrough has taken place.

Reconciliation

5

## 17 | International Cooperation

Hamid Karzai's government and transition process would not have been possible had international support not been forthcoming. The elaboration of the Afghan National Development Strategy took too long, and since its launch in 2009 has failed to keep track of milestones. Nine years of economic, political and military support by the international community have shown disappointing results, as the country lacks efficient institutions and a framework for the rule of law. Resources have not been efficiently utilized, resulting in growing discontent with the Afghan government within the population and the international community.

Effective use of support

6

Hamid Karzai won the election in 2009, but his credibility as a leader steering his country through democratic transformation has waned over the years as violence and corruption have increased. Fraud and irregularities during the presidential and provincial elections of 2009 and 2010 further affected his image. People are frustrated with his speeches and plans, and expect tangible improvements regarding stability and living standards. Karzai is no longer the lead choice of his international backers, but given a lack of other potential consensus candidates, the international community has other choice than to continue reluctantly to support him. Other government officials have proved no better as counterparts for international dialogue.

Credibility

3

The year 2010 saw the convening of the first international conference in Kabul; however, the notion of genuine regional cooperation has a long way to go. A regional approach to combating terrorism is being stressed by all Central and South Asian governments. However, neighboring countries such as Pakistan are not happy with the growing Indian influence in Afghanistan. India has opened four regional consulates and has provided reconstruction assistance amounting to about \$662

Regional cooperation

6

million. Iran is suspicious of Pakistan's support of Sunni Taliban and pro-insurgency elements. Moreover, Iran has accused Pakistan of allowing terrorist organization Jundullah to operate from its soil against Iran. Relations between regional actors are thus characterized by mutual mistrust and selective collaboration. The Afghan government has pleaded with its neighbors to avoid drawing the country into their bilateral problems, and to join in the effort to stabilize Afghanistan.

## Strategic Outlook

The strategic outlook for Afghanistan is bleak and complicated. The country has become further fragmented by the insurgency and the failure of the government and international community to deliver on promises of development and stability. This has in turn affected the country's political, economic and security progress. Numerous actors are operating within Afghanistan, each pursuing its own agenda, a fact that contributes to economic and political fissures within the society. Afghans' perception that their country has again become a host for proxy wars between regional and extraregional powers grows stronger every day. These powers are now under immense pressure to cooperate and bring peace to the country. The United States has declared that it would begin withdrawing forces in July 2011. Conflict is thus expected to intensify and become more violent in 2011. Pakistan, the United States and Afghanistan are working out a strategic alignment before the withdrawal starts. However, skepticism regarding Pakistan's future role is high within Afghan diplomatic circles, because of the former country's close connections with the Taliban. A process of reconciliation and negotiation with the Taliban seems to be the only way out of this quagmire, but it is unclear whether this process can yield results in the short term. However, expectations that the 2011 –2012 may yield some successes in this regard are high. The Afghan National Army and the Afghan police must assume greater responsibility for securing and protecting the country's population in coming years.

# BTI 2012 | Bangladesh Country Report

Status Index	1-10	5.82	# 59 of 128	
Political Transformation	1-10	6.25	# 55 of 128	➔
Economic Transformation	1-10	5.39	# 70 of 128	➔
Management Index	1-10	4.57	# 78 of 128	

scale: 1 (lowest) to 10 (highest)

score

rank

trend

## Key Indicators

Population	mn.	148.7	HDI	0.500	GDP p.c.	\$	1659
Pop. growth <sup>1</sup>	% p.a.	1.1	HDI rank of 187	146	Gini Index		31.0
Life expectancy	years	68	UN Education Index	0.415	Poverty <sup>3</sup>	%	81.3
Urban population	%	28.1	Gender inequality <sup>2</sup>	0.550	Aid per capita	\$	7.6

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The period under review has been marked by rule by a democratically elected regime with a three-quarters majority mandate. The government of Bangladesh asserted its authority in the face of the rebellion by the border security forces and was able to handle the mutiny. But the law and order situation has deteriorated; particularly notable is the upturn in human rights violations including extra-judicial killings. Militancy continues to be contained. The anti-corruption drive initiated by the caretaker government (2007 – 2008) has begun to falter due to lack of support from the current government. Parliament has been less than effective due to frequent boycotts by the opposition party and the ruling party's unwillingness to make compromises. The government has had successes in its foreign policy, especially in improving its relationship with India. However, the government's decision to intervene in the operation of the Grameen Bank (GB), the country's pioneer micro-finance institution, and to remove Nobel Laureate Muhammad Yunus from the GB may strain its relationship with the international community. The government has initiated the process of trying those who committed crimes against humanity during the war of independence in 1971. Bangladesh's economic performance was impressive considering the global economic challenges. The growth momentum of earlier years has continued and international reserves increased despite a decline in exports and slowdown of growth in remittances. Overall GDP growth rates were high, 5.8% in 2010. Rising inflation, high underemployment, and trade deficits remain the main negative aspects.

## History and Characteristics of Transformation

Bangladesh became an independent state in December 1971 after a nine-month long liberation war which began after the Pakistani armed forces waged a military crackdown (Operation Searchlight) against the Bengali population of the then East Pakistan. The Bengali resistance movement received support from India throughout the war. India's military involvement against the Pakistani forces expedited the conclusion of the war. In the past four decades, Bangladeshi politics have undergone a significant transformation, experiencing a variety of systems of governance, including prolonged military rule. These transformations can be divided into five broad phases: elected civilian regime (1972 – 1975), military and military-dominated rule (1975 – 1990), democratic civilian governance (1991 – 2006), military-backed caretaker government (2007 – 2008), and the second democratic era (2009 onwards).

Between 1972 and 1975, Prime Minister Sheikh Mujibur Rahman and the ruling Awami League (AL) adopted the parliamentary form of government and a command economy. Domestically, Bangladesh relied on a strong public sector and promoted a policy of nationalization to rebuild itself after the war. The AL, which had been the main advocate of independence, became the dominant party and adopted an authoritarian style of governance. To address the growing opposition to the regime, particularly from ultra leftist parties, Sheikh Mujib Rahman replaced the parliamentary government with a one-party presidential system called the Bangladesh Krishak Sramik Awami League (Bangladesh Krishôk Sromik Aoami Lig, BAKSAL). The model was put into operation under the same leadership, making Sheikh Mujibur Rahman president of the country.

The foreign policy of the new state focused on close political and economic relations with India and the Soviet Union. The regime advocated a secular nationalist ideology and promoted a Bengali nationalism that emphasized the common historical and cultural background of all Bengalis, including citizens of the neighboring Indian state of West Bengal.

The military coup of August 1975 and the assassination of Mujibur Rahman resulted in a radical shift at both domestic and international levels. The military government under General Ziaur Rahman (1975 – 1981) promoted Bangladesh's relations with the industrialized nations of the West, with the People's Republic of China and the oil-rich Gulf countries. The new regime opened up the economy for foreign investment and announced an export-oriented policy in the 1980s. General Ziaur Rahman founded his own political platform in 1978 called the Bangladesh Nationalist Party (BNP). The BNP became the main competitor to the AL. The BNP emphasized a separate Bangladeshi identity and promoted a religious concept of nationalism that emphasized the differences with the Bengali speaking community in India. In 1977, Islam was incorporated for the first time into the previously secular constitution. Religio-political parties, proscribed after the independence, were allowed to revive in 1979. The Jamaat-i-Islami, which opposed the Bengali nationalist movement and actively collaborated with the Pakistani Army during the

independence war, re-emerged onto the political scene in 1979. In May 1981, Ziaur Rahman was killed in Chittagong. An attempted transition to civilian rule failed, and in March 1982, General Ershad took over the government. With the creation of the Jatiya Party (JP) in January 1986, Ershad also created a party dominated by his political ambitions. In 1988, another constitutional amendment made Islam the state religion in Bangladesh. He was able to play the BNP and the AL off each other, and benefited from the personal rivalries between Sheikh Hasina (AL) and Khaleda Zia (BNP). During his rule, the role of the military in public institutions was strengthened. The era of military and military-ruled governance ended in December 1990 through a popular uprising.

The elections of February 1991 brought the BNP back to power under the leadership of Khaleda Zia. In a rare show of agreement between the AL and the BNP, the parliament unanimously amended the constitution and reintroduced the parliamentary form of government in 1991. Power alternated between the BNP and the AL in elections held between 1991 and 2006, with the exception of the rigged elections of spring 1996. The AL was elected to power in June 1996. The election of October 2001 brought another change of government, turning power over to the BNP and its coalition partners, including religio-political parties like the Jamaat-e-Islami (JI). Parties which favor an admixture of religion and politics gained strength and influence after 1978. Islamist militant groups proliferated in the late 1990s and the early 2000s. In late 2006, the country was plunged into chaos as the outgoing government and the opposition parties failed to reach an agreement on various issues including who should be leading the interim government prior to the election.

Street agitation, violence and months of uncertainty led to the appointment of a military-backed technocratic caretaker regime in January 2007 under a constitutional provision enacted in 1996. The government attempted to reform institutions and a political culture which had promoted uncertainty, corruption and acrimony during the fifteen years of democratic era. In the election held in December 2008, the AL-led alliance emerged victorious with an unprecedented majority in parliament. The government faced a rebellion of the border security force, the Bangladesh Rifles (BDR) in early 2009. Since then government has retained control of the overall political situation and democratic institutions have functioned without major problems.

Despite a challenging global environment, particularly the global financial crisis in the past three years, Bangladesh has posted a solid economic performance, with growth close to 6% in 2010. This builds on the steady economic growth Bangladesh has enjoyed since the 1980s. It is also worth noting that the country has made remarkable progress in various social indicators such as reduction of population and child mortality, and has improved gender parity in primary education – to name but a few successes. Although widespread corruption and patronage and the misallocation of resources have held the country back from making a developmental leap, there is a growing realization of the need to address these issues in earnest.



The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

Governments in Bangladesh still face problems in exercising the legitimate use of force. The most dramatic challenge to the state came in the form of the rebellion of the BDR in February 2009. The rebellion cost 75 lives including 58 Army officials who served the BDR. The government quelled the rebellion through negotiations, but prompted discontent among the military, who were restrained from taking action against the mutineers. Widespread corruption, partisan influence over civil administration and the availability of small and light weapons are the principal causes for the continuing deterioration of law and order. The network of Islamist militant groups such as the Jama'at-ul-Mujahedeen Bangladesh (JMB), smaller and left-wing extremist groups dispersed across various parts of the country, and extortionist groups supported by political elements, pose threats to stability and law and order. The government is vigilant against the radical groups and continues to apprehend Islamist militants. Although political violence remained low in 2009 and 2010, particularly compared to 2005 – 2006 when a civilian political government was in power, criminal activities including robbery, abduction, drug trafficking, attacks on women and murder increased substantially.

Monopoly on the  
use of force

6

Bangladesh has a sound basis for nation building. Compared to its neighbors in South and Southeast Asia, the country has high religious and linguistic homogeneity, as over 98% of the people are Bengalis, predominantly Bangla-speaking peoples, and 80% of the total population is Muslim. However, the issue of national identity is a source of contention between two political major political camps led by the AL and the BNP. The former underscores ethnic identity while the latter favors religion as the principal marker of identity. Small aboriginal tribal groups' clamors for recognition receive very little attention. The peace accord signed between the government and ethnic rebels in the Chittagong Hill Tracts (CHT) in December 1997 brought an end to the insurgency, but the tension and conflicts between indigenous ethnic minorities and Bengali settlers have yet to be

State identity

9

resolved. Reports of torture, rape, land grabbing and intimidation remain widespread. Occasionally violence erupts, yet a comprehensive roadmap to implement the accord is absent. About 300,000 “Biharis” (stranded Pakistanis according to the official lexicon – those who opted to resettle in Pakistan after the 1971 war of independence and their offspring born since then) remain in a legal limbo. In 2008, the government allowed 15,000 of them to register as voters, an indication that the Biharis are increasingly willing to accept Bangladeshi citizenship.

Bangladesh’s 1972 first constitution was secular. After the military coup of 1975, Islam was introduced into the constitution in 1977 and, with the addition of the eighth amendment in 1988, became the state religion. Popular Islam in Bangladesh is strongly influenced by liberal Sufi traditions. In the past, Islamist groups and parties have demanded the banning of liberal Muslim sects like the Ahmadiyyas, and incidents of attacks on their mosques were recorded. Apart from some isolated instances of harassment, there were no reported demonstrations or attempts to attack Ahmadiyya community institutions. The government generally acted in an effective manner to protect Ahmadiyyas and their property. Similarly, isolated attacks on members of the Hindu community and temples have been reported in the press. Government briefly blocked access to the popular social networking site, Facebook, due in part to a depiction of the Prophet Muhammad. Access was restored within one week.

No interference of religious dogmas

7

Bangladesh has a basic administrative infrastructure throughout the country. Its operation is deficient because of widespread corruption, a politicized bureaucracy and a lack of resources and patronage. The government has exercised influence on the local administration and has significantly curtailed powers of elected local government officials.

Basic administration

6

## 2 | Political Participation

There is universal suffrage and the right to campaign for elected office. The general election of 2008 was assessed as “free and fair.” Voter turnout in the local level election (Upazilla parishad) held in January 2009, was lower compared to the general elections, but the elections were held relatively peacefully. The Bangladesh Election Commission (BEC) ensures that elections are run correctly. The new voters’ list with pictures compiled by the BEC in 2008 with the help of the army, and the independent operation of the BEC in subsequent years has ensured credible by-elections for parliamentary seats, and municipal elections.

Free and fair elections

8

The parliamentary election of 2008 and the installation of the new government in early 2009 returned power to elected officials after two years of military-backed technocratic caretaker government. The parliament, despite some weaknesses, has

Effective power to govern

7

been the focus of politics and governance between 2009 and 2010. Although elected civilian government and bureaucracy hold the key, the armed forces remain a significant force.

The conflict between the AL under the leadership of Sheikh Hasina and the BNP under the leadership of Khaleda Zia has inhibited the process of institutionalization of civilian control. In order to instrumentalize the military for their partisan interests, the civilians (Hasina as well as Zia) did not develop the political will to establish institutionalized civilian control, but rather preferred an informal, personalized style of instructing and monitoring the armed forces.

There are no significant constraints on the freedom of association and assembly. The constitution allows citizens to exercise their fundamental right of assembly “subject to any reasonable restrictions imposed by law.” The opposition parties have alleged that their supporters have faced police brutality during peaceful demonstrations. Workers have not been allowed to organize in the ready-made garments sector, and most workers who attempt to unionize face hostile resistance from employers and have allegedly been intimidated by the government. The government recently promised that it will implement trade unionism in the garments sector from next year onwards to ensure worker rights.

Association /  
assembly rights

8

Freedom of press and opinion is guaranteed under the constitution. The media, both print and electronic, is diverse and vibrant. Newspapers tend to tilt towards certain political parties. The government, from time to time, has expressed displeasure with some of the media outlets and floated the idea of new laws to address “sensational reporting”. It backtracked in the face of opposition from media and civil society. A clearly articulated policy in regard to the issuing of licenses for television channels is absent, leading to widespread allegations that the government has issued new licenses to its cronies. Two television channels have been closed down in the past two years. The government also attempted to close down a national daily allied to the opposition party: A reporter of the newspaper was jailed for a month and the acting editor was incarcerated for contempt of court. The Right to Information Act enacted under the caretaker government was revised and adopted at the first parliament session in 2009. This marked a significant step forward in fulfilling the constitutional pledge of the state of Bangladesh and the election manifesto of the ruling party – the AL. But the Information Commission remains weak and the lack of political will to strengthen it is palpable. One human rights organization recorded at least 250 incidents of attacks, intimidations, violence, and arrests of journalists in the first nine months of 2010.

Freedom of  
expression

7

### 3 | Rule of Law

The executive arm of the state traditionally enjoys prominence and exerts influence over other institutions. The legislature is usually subservient to the executive, particularly because of the huge majority of the ruling party and Article 70 of the constitution, which prohibits members of parliament from acting against the party. The Supreme Court enjoys a certain degree of independence vis-à-vis the executive. The higher courts, especially the Supreme Court, have passed a number of verdicts (for example repeals of the fifth and the seventh amendments of the constitution) which have implications for the rule of law. Most of the 48 parliamentary standing committees formed in the first session in 2009 are exercising their oversight function in regard to the executive.

Separation of  
powers

6

Although the law providing for the separation of judiciary from executive was passed by the parliament in 2009 as a follow up to the 1999 Supreme Court order, the objective has yet to be fully achieved because of non-completion of some critical aspects such as the appointment of a powerful supreme judicial council. A higher degree of transparency, neutrality and accountability in the criminal administration of justice is yet to be a reality. Issues such as the basis of judicial appointments, the security of tenure, and the pattern of political patronage and interference remain unaddressed. Executive control over the appointment process is exercised blatantly and appears to be done with a view to outnumber the judges appointed by the previous government. At the lower levels, the courts are often faced with political interference and corruption charges.

Independent  
judiciary

5

Corruption remains an endemic problem and has permeated all levels of society. Political parties pay lip service to the elimination of corruption but are not inclined to develop institutional mechanisms to address the problem. Accordingly, the country has not seen any dramatic change in corruption. It is common knowledge that officeholders tend to exploit their position for private gain. The vigorous anti-corruption drive by the caretaker government between 2007 and 2008 and the reorganization of the Anti-Corruption Commission (ACC) hit a snag after the elected government came to power. The Chief of the ACC resigned under pressure from the government. The new chief has complained that the organization has lost its teeth. The government attempted to amend the law that would restrict the ability of the ACC to file cases against any public servant including the lawmakers and judges. The ACC will require prior permission before filing cases against government officials. The courts have thrown out hundreds of cases filed by the ACC against politicians, businessmen and bureaucrats – many under the Emergency Power Rules (EPR) – on legal technicalities. The government has recommended that the courts and the ACC withdraw hundreds of corruption cases initiated against AL supporters on the grounds that they were “politically motivated” cases filed

Prosecution of  
office abuse

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under previous governments. Similar cases against the political opposition have not been recommended for withdrawal. The ACC remains weak for a number of reasons. In its current form, created by an act of parliament, it has no constitutional base and suffers from a lack of resources.

Extra-judicial killings and killings in police custody were major sources of civil rights violations during the period under review. According to human rights organizations, at least 141 extra-judicial killings were perpetrated from January to November 2009, of which 120 were so-called “crossfire” incidents. Some 17 people were allegedly tortured to death in custody and four others were shot dead during violent clashes. In 2010, at least 127 people lost their lives in extra-judicial killings at the hands of members of law enforcement agencies. These incidents took place despite the High Court’s instruction to the government to stop these human rights violations and the government’s promise to bring an end to such practices. The government attempted to stop a photo exhibition on extra-judicial killings. These incidents became rampant in Bangladesh after the formation of an elite police force, the Rapid Action Battalion (RAB), in 2004. According to Amnesty International, 1,669 people have been killed extra-judicially by the RAB since its formation. The increasing incidence of enforced disappearances has been a growing concern for human rights activists in the past year. In recent years there have been a number of cases where relatives and friends claimed that individuals had been “abducted” by plain-clothed members of law enforcing agencies including the RAB. The government denies any involvement of police or the RAB. After the rebellion, about 4,000 BDR soldiers were arrested and now face charges of mutiny. The government has set up six divisional courts and begun trying the mutineers. In the months after their arrests, about 50 BDR soldiers died in custody in suspicious circumstances. The government claimed that they died of “heart attacks” or committed suicide. No official enquiry into the incidents was conducted. The Torture and Custodial Death (Prohibition) Bill, 2009 which attempts to bring Bangladeshi law into conformity with international law was placed before the parliament as a private members bill. The government has not acted on the bill.

Civil rights  
5

#### 4 | Stability of Democratic Institutions

In principle, democratic institutions perform their functions. But the absence of a political culture of tolerance, the lack of willingness to compromise, and the mindset of politicians who view each event as a zero-sum game have prevented the proper functioning of democratic institutions. Parliament has been dominated by one party not only because of the size of the ruling coalition, but also the reluctance of the opposition party to attend parliament. The main opposition BNP boycotted almost all the sessions except for two or three since the ninth parliament began on 25 January 2009. Between January 2009 and December 2010, BNP lawmakers

Performance of  
democratic  
institutions  
5

attended the parliament only 43 of 169 working days in the seven sessions held during the period. As of January 2011, BNP lawmakers have skipped 49 consecutive sittings since June 2010. It is equally important to note that the parliament sessions had to be suspended on more than one occasions due to a lack of quorum, although three-quarters of members belong to the ruling party. A key structural impediment to the institutionalization of democracy is the concentration of power in the hands of one or two party leaders and one or two offices (e.g., the prime minister's office). Additionally, political interference, patronage networks and widespread corruption have weakened the foundations of these institutions. Many of the ruling party's promised changes have yet to materialize: For example, making public the wealth statement and source of income of the prime minister, members of cabinet, parliament members and their family members' public; allowing members of parliament to express dissenting opinion; the appointment of an ombudsperson; and the adoption of strict measures to curb corruption.

The major political parties and civil associations accept democratic institutions as a legitimate political order. The main veto players are radical Islamist groups and parties that want to replace the democratic system with an Islamic state. The influence of these forces has weakened in recent years. The army, as an institution, has accepted the leadership of elected governments thus far, although it wants to further its corporate interests and views itself as guardian of the state.

The role of the Bangladesh Armed Forces (BAF) in the struggle for independence and the deeply entrenched factionalism among officers from different career backgrounds has resulted in soldiers developing a vehement resistance to efforts to control them. This led the military to identify civilian control efforts as mere attempts to dominate them for the civilians' own partisan political purposes. While the military exercised considerable self-restraint in recent years and did not openly intervene in civilian politics and the parliamentary, several observers cast considerable doubt about the commitment of military officers to democracy and parliamentary institutions.

## 5 | Political and Social Integration

The major political parties, such as the Awami League (AL), Bangladesh Nationalist Party (BNP), Jatiya Party (JP) and Jamat-e-Islami (JI), developed an established party base after the 1991 democratic transition. However, the major parties (the BNP, the AL, and the JP) lack any internal democracy; the JI's internal democratic practices are opaque, at best. The main parties are dominated by individual leaders and their families, such as Khaleda Zia (BNP), Sheikh Hasina (AL) and General Ershad (JP). The dynastic principle is present at almost every level of these parties.

Commitment to  
democratic  
institutions

6

Party system

6

The political reform measures initiated by the caretaker government between 2007 and 2008 attempted to curb this practice and encourage internal democracy, with very little success. The parties registered with the BEC are required to practice internal democracy and allow voices of grass-roots members in policy-making processes. Although the BEC requires that the parties select their candidates for the parliamentary election through the votes of the party's grass-roots members, the parties did not follow this rule. The AL's efforts in this regard were symbolic at best. The candidate selection processes favor wealthy individuals who buy party nominations by making undeclared contributions to the party fund. Party funds are not audited properly and there is no political contribution law to prevent such practices.

The extensive polarization of Bangladeshi politics can be traced back to the bitter personal rivalries between Khaleda Zia and Sheikh Hasina. Often their personal acrimony has overshadowed ideological cleavages.

Because of the polarization and politicization of Bangladeshi society, most interest groups are organized along party lines. Religious groups and educational institutions have gained greater influence in recent years. They aim to replace the democratic state with a religion-based political order and enhance the role of Islamic values in social behaviors. The increased number of businessmen in the parliament (almost half of the members of the 9th parliament record business as their primary profession) has provided the business community with greater leverage over the policy-making process. Business organizations such as the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), and Bangladesh Garments Manufacturers and Exporters Association (BGMEA) are more vocal on political issues and try to exercise influence over the government and political parties.

Interest groups  
5

The commitment of ordinary Bangladeshis to democratic norms is unwavering – as reflected in the high and growing rate of electoral participation (55.46% in 1991, 74.96% in 1996, 75.59% in 2001 and 86% in 2008), although they are critical of the quality of political leadership and the extant party system. Public discourse, the popularity of television talk shows and the predominance of political news in the media are also testimony to this commitment.

Approval of  
democracy  
8

Bangladesh has a great variety of social organizations. These organizations vary in size and focus. Many NGOs are active in rural areas and provide programs for alleviating poverty, empowering marginalized groups and women, and providing health training and basic education. NGOs such as the Bangladesh Rural Advancement Committee (BRAC) have established a countrywide network of branches. The Grameen Bank has received international acclaim including the Nobel Peace Prize with their microcredit banking program. In a few cases, NGOs have been prosecuted because of alleged political activities. Islamic organizations

Social capital  
6

have established networks focusing on economic development and access to education. They are often critical of the strategies of the secular NGOs that promote women's rights. In recent years, the NGO sector has been criticized by various groups for a lack of transparency and alleged questionable practices. There are a number of organizations that have focused on education and social development, instead of income generating activities. Cultural organizations have a long tradition in the country and they have significant influence on social ethos. Cultural organizations and their combined platforms had been at the forefront of the pro-democracy movement during the Ershad era (1982 – 1990). The traditional political engagement of cultural organizations has continued. Some cultural organizations are affiliated with the political parties and work to promote certain political programs.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

The Bangladeshi economy has shown great resilience in the face of the recent global economic crisis and recession and has continued to grow at a healthy rate. Since 1996, the economy has grown 5% – 6% per year. Political instability, poor infrastructure, corruption, insufficient power supplies, and slow implementation of economic reforms have not slowed down growth. Economists agree that the country has the potential to achieve a higher growth rate if these roadblocks are adequately addressed. More than half of GDP is generated through the service sector, but nearly two-thirds of Bangladeshis are employed in the agriculture sector. The share of agriculture in the labor force is 45%, in industry 30% and in services 25%. The share of the service sector in GDP is 52.6% while industry's share is 28.7% and agriculture's 18.7%. In 2009, garment exports, totaling \$12.3 billion and remittances from overseas Bangladeshis totaling \$9.7 billion accounted for almost 25% of GDP. The country was not completely immune from the global economic downturn; the principal adverse effect of the recession was a reduction in export revenue in 2009. It came on the back of a very high growth of 23% in 2008. However, overall exports declined by only 2.0%. Despite recent high growth rates, socioeconomic development is still not favorable for the majority of the population. Poverty remains the overarching problem, as, according to the latest available statistics, 81.3% live below \$2 a day at 2005 international prices (adjusted for PPP). According to the national poverty line, 41.2% of the population lives in poverty, of which 31.9% are in poverty and 9.3% in extreme poverty. Sharp regional variations exist in the incidence of poverty. Bangladesh has made great progress in improving access to a viable water supply with the widespread use of tube wells, and 97% of

Question  
Score

Socioeconomic  
barriers  
4



Bangladeshis have access to a water point. However, due to the discovery of arsenic in the ground water, only 76% of these can now be considered safe. In 2006, the Joint Monitoring Program by WHO and UNICEF reported that 51% of urban areas had improved sanitation facilities and only 7% of urban areas had sewerage connection. In addition, only 32% of the rural population was using improved sanitation in 2006.

Female economic activity accounts for 52.7% of the economy, but females earn less than half the income of their male counterparts. The number of poor women is higher than their male counterparts and the extremely poor are largely women, while there is a higher proportion of female-headed households than male-headed ones among the ultra-poor. However, the country has made significant progress in achieving gender parity in primary and secondary education. Rural areas still lack basic health care facilities and educational institutions. The number of health care facilities in rural areas has not grown as quickly as the number of education institutions, thanks to the NGOs working in the education sector. According to a World Bank report, Bangladesh has a very high rate of severely undernourished children, and little progress has been made in reducing stunting and underweight rates since 2000. Child underweight rates have hovered at about 46% since 2000. The total number of undernourished people in Bangladesh is approximately 41 million.

Overall, according to the 2010 data, the HDI for Bangladesh was 0.469 with a rank of 129 out of 168 countries. The 2005 data shows that the Gini index is 31.0.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	68415.4	79554.4	89359.8	<b>100357.0</b>
GDP growth	%	6.4	6.2	5.7	<b>6.1</b>
Inflation (CPI)	%	9.1	8.9	5.4	<b>8.1</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.0	1.3	0.8	<b>1.0</b>
Export growth	%	13.0	7.0	0.0	<b>0.9</b>
Import growth	%	16.0	-2.1	-2.6	<b>0.7</b>
Current account balance	\$ mn.	856.9	926.2	3556.1	<b>2502.4</b>

Economic indicators		2007	2008	2009	2010
Public debt	% of GDP	-	-	-	-
External debt	\$ mn.	21298.2	22879.8	23801.6	<b>24962.6</b>
Total debt service	\$ mn.	990.1	888.3	954.4	<b>1012.7</b>
Cash surplus or deficit	% of GDP	-1.3	-1.0	-1.7	-
Tax revenue	% of GDP	8.0	8.8	8.6	-
Government consumption	% of GDP	5.5	5.3	5.3	<b>5.4</b>
Public expnd. on edu.	% of GDP	2.6	2.4	-	-
Public expnd. on health	% of GDP	3.5	3.3	3.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.0	1.0	1.0	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Market competition in Bangladesh operates under a weak institutional framework, with uneven rules for market participants. This is an ongoing obstacle to market economic transformation which has not diminished over the past decade. In addition, there is considerable state intervention in sectors the government regards as strategically important such as the ready-made garments industry, which is supported by the state but in which private entrepreneurship has played a key role. Apart from this strategic sector, the majority of Bangladeshis are still employed in the agricultural and informal sectors of the economy. Rising power shortages and the lack of a comprehensive plan to address the issue for almost a decade has created a major hurdle.

Bangladesh's rapidly transforming informal sector remains highly significant: According to the Bangladesh Institute of Labour Studies (BILS), the ratio of formal / informal sector was 1:4 in 2005.

The formation of monopolies is regulated in an inconsistent manner due to the absence of a policy in this regard. The Monopolies and Restrictive Trade Practice (Control and Prevention) Ordinance, 1970, enacted before Bangladesh separated from Pakistan, is on the legislative books but neither the government nor the private sector have ever invoked the law. The first initiative to adopt a competition law was taken in 1996, but it was soon abandoned. A draft Competition Act 2008 has been

Market-based  
competition  
5

Anti-monopoly  
policy  
6

prepared by the ministry of commerce and is currently being considered by the government. However, during the past two years' worth of consultations, business representatives have expressed their concern that it has been drafted by "foreign experts". The lack of skills, expertise and institutional capacity of the proposed competition commission is another concern expressed by the business community. The weak competition regime not only impedes efficiency gains but also overlooks the interest of the consumers.

Trade liberalization has been one of the major policy reforms carried out by Bangladesh in the 1980s. It has been implemented as part of the overall economic reform program, that is, the structural adjustment program (SAP) initiated in 1987. Since the 1990s, trade liberalization and export promotion remained the central element of Bangladesh's trade policy. It has impacted upon exports and imports dramatically. Trade liberalization combined with duty-free and quota-free access to the European Union and a number of other countries to help Bangladesh's exports increase more than nine times between 1990/1991 and 2008/2009. During this period, the share of exports in GDP tripled from 5.54% to 17.41%. The total value of imports increased six-fold between 1990/1991 and 2008/2009. This has put negative pressure on the overall balance of trade, which has grown from about 6% of GDP to 7.77% of GDP. The share of primary commodities to total exports continued to decrease and stood at 7% in 2007/2008. On the other hand, the share of manufactured goods to total exports increased to 93% in 2007/2008. Since 1992/1993 woven garments and knitwear have been the main export items; in 2007/2008, woven garments and knitwear comprised 76% of total exports (37% and 39% respectively). In 2007/2008, the share of textile fabrics, pharmaceutical raw materials and machinery for miscellaneous industry accounted for 56.8% of total imports. Economists have pointed out that Bangladesh's export base remains narrow as the impressive success in garment exports has yet to be replicated in other industries. Intra-regional trade was low. The trade deficit with India continued. Total bilateral trade in 2008/2009 stood at \$3.117 billion. Of this, Bangladesh's imports from India were \$2.841 billion and exports to India were \$276.58 million. In 2010, India extended a line of credit of \$1 billion to Bangladesh for a range of projects, including railway infrastructure, supply of BG locomotives and passenger coaches, procurement of buses, and dredging projects. The Line of Credit Agreement is signed but the projects have yet to be identified and/or initiated. The two countries have agreed on trans-shipment but the debate over charging fees and costs associated with the treaty is still ongoing.

The banking sector of Bangladesh comprises four categories of scheduled banks. These are state-owned commercial banks (SCBs), state-owned development finance institutions (DFIs), private commercial banks (PCBs) and foreign commercial banks (FCBs). The latest available data shows that in 2008 SCBs held 31.1% of the total industry assets as against 33.1% in 2007. PCBs' share rose to 54.2% in 2008 against

Liberalization of  
foreign trade

7

Banking system

5

51.4% in 2007. The FCBs held 8.0% of the industry assets in 2008, showing a declining trend by 0.2 percentage points over the previous year. The DFIs' share of assets was 6.7% in 2008 against 7.3% in 2007. The asset composition of all commercial banks shows the concentration of loans and advances (63.6%). Analysts believe that the high concentration of loans and advances indicates vulnerability of assets to credit risk, especially since the portion of non-performing assets is significant.

Alongside the conventional interest-based banking system, an Islamic banking system has thrived since its inception in 1983. At the end of June 2009, total deposits of the Islamic Banks and Islamic banking branches stood at 26.0% of the deposits of all private commercial banks and 17.8% of the deposits of the total banking system. Overall the soundness of the banking system has strengthened in recent years, but a huge non-performing loan portfolio remained a problem particularly to the state-owned commercial banks. The Grameen Bank and local savings societies play an important role in rural areas by extending microcredit loans to the poor. They often have better loan repayment rates than state-run banks.

The stock market in Bangladesh was characterized by an extreme see-saw motion throughout 2010 and early 2011. Record numbers in index, turnover, market capitalization and investors were the brighter aspects of the market until dramatic falls were experienced twice in December 2010, sparking street protests. The benchmark key index at the DSE nearly doubled within a year, from 4535.53 points in 30 December 2009 to 8290.41 points on the last trading day of 2010. In the last two years many small investors flocked to the market, lured by the prospect of easy profits. It is estimated that more than 1.3 million new investors entered the capital market in this period and the total stood at 3.3 million by the end of 2010. After a slight recovery in the last days of 2010, the stock market crumbled in January 2011. In two days in January the Bangladeshi stock market lost more than 15%, an estimated loss of wealth of almost \$7.5 billion. It was a confluence of factors, including lack of investment opportunities in the real sector, excessive supply of money and proliferation of trading facilities that encouraged inexperienced small investors to take a wild ride in the stock market. The banks' reckless participation in the market exacerbated the situation. The central bank paid very little attention to the growing bubble until it was too late. Of particular concern is the central bank's lack of oversight with regard to the sector's participation in the stock market. It allowed banks to leave their traditional business and did not enforce rules limiting stock market participation by them. Two other factors exacerbated the situation: Overpricing initial public offerings (IPOs), especially mutual funds, and the Securities and Exchange Commission's (SEC) decision to change rules erratically either as a panic response or to help a small group of people (73 directives in a single year; especially margin rules).

## 8 | Currency and Price Stability

The government takes an array of measures to control inflation and is well aware of the need for “due vigilance against inflationary pressures.” Since the 1990s the average inflation rate has been about 5.6%, which is remarkably low compared to the second half of the 1980s when the rate was about 8%. The situation in recent years has not been as stable. In 2008 the average rate of inflation was as high as 8.9% due to rises in both food and nonfood prices. It came down to an average of 5.1% in 2009. In October 2010, inflation on a point-to-point basis declined 0.75 percentage points to 6.86%, thanks to the easing of food prices that had been putting extra pressure on the wallets of consumers over the previous few months. The annual average inflation, however, remained steady at 8.12% in the month, putting a brake on the rising curve seen since November 2009. According to IMF projections, inflation is expected to average 7% in 2011, on an anticipated moderation of commodity price increases. By the middle of 2010 the price of essentials began to rise steadily. The government’s decision to increase the power tariff hit the common people hard. The government went for repeated interventions through open market sale (OMS) of rice and a few other essential items through Trading Corporation of Bangladesh (TCB) dealers, price fixing and drives by monitoring teams. However, all efforts proved to be largely unsuccessful.

The exchange rate remained stable, although many believe that this was the result of aggressive intervention by the central bank of the country. Despite an increase in the foreign exchange reserve and in the face of major economic shocks, including the global economic crisis, the value of the taka against dollar has stayed remarkably stable during the last four years.

Liquidity expansion, as measured by broad money, grew by more than 22.4% in 2010 – higher than 19.2% in 2009. The expansion in broad money was well beyond the target of 15.5% envisaged in the Monetary Policy Statement of Bangladesh Bank announced in June 2009. The growth was 17.6% in 2008.

The government of Bangladesh has developed a culture of stability that is strongly supported by the international donor community. Between the early 1990s and the mid-2000s, the economy has had experienced both macroeconomic stability and robust economic growth. In the past two years, the economy proved its resilience in achieving stronger than expected growth despite having to contend with the adverse effects of unfavorable weather conditions, the increase in prices for imported commodities, the global financial crisis and the period of political unrest and uncertainty in the late 2000s. However, the rise in the inflation rate in recent years combined with deepening income inequality has tempered the impact of growth on the quality of life of most citizens, and threatens social and macroeconomic stability in Bangladesh. Furthermore, political conflict and instability within Bangladesh and

Anti-inflation /  
forex policy

7

Macrostability

7

increasing geopolitical risks have further complicated policy decisions during the period under review, and will most certainly remain challenges for macrostability in the upcoming months and even years.

## 9 | Private Property

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

Property rights  
6

Since its establishment in 1993, the Privatization Board (renamed the Privatization Commission in 2000) has privatized 75 units. The privatization of state companies is progressing under the new government. A total of 23 industrial enterprises are listed for privatization. According to the Bangladesh Institute of Labour Studies (BILS) in 2005, the ratio between public and private sector is 30:70.

Private enterprise  
7

## 10 | Welfare Regime

Social safety nets only exist for a very small section of society, mainly in the government sector and parts of the corporate sector. For many years, the government has promoted poverty alleviation programs with the support of the international donor community. There are about 30 specifically designed social safety net programs directly operated by the government of Bangladesh. The extant social safety net programs include an old-age allowance scheme, an allowance for widowed and distressed women, Vulnerable Group Development (VGD), a maternity allowance scheme, female secondary stipend programs, open market sales (OMS) during price rises of food grains, a public food distribution system (e.g., rations for poor people), natural disaster programs, and provision of shelter (Asrayan/Bashan/Adarshagram programs etc.). The current government has expressed renewed commitment to increasing the scale and coverage of these programs and has made some progress. However, the total allocation for these safety net programs is small; less than 1% of GDP is spent on safety nets. The amount of money provided to individuals is small and insufficient in terms of the basic needs of the person. Local NGOs have also initiated programs for social safety nets, but only on a limited basis.

Social safety nets  
3

Inequality is palpable at various levels, including gender, ethnic and religious inequality. Despite the fact that two female leaders have dominated the political landscape of Bangladesh since the democratic transition of 1991, and that 45 seats are reserved for women in parliament, equal opportunity is still not a reality for most women. The ninth parliament elected in 2008 has the highest number of

Equal opportunity  
4

female members since independence – about 18.6% – but two years later, most of the female lawmakers in the parliamentary standing committees could not play their role effectively. However, some gradual changes are taking place in society. One of the two elected vice chairpersons of the local-level Upazila council has to be a woman. They are elected through direct elections. Public offices and the civil service employ a very small number of ethnic and religious minorities. The government reserves a certain percentage of positions for ethnic minorities in government services, and universities also reserve a number of seats for such students – called a quota system. Still, this has not improved much because of the structurally ingrained nature of unequal access to education or job opportunities. Tribal ethnic groups face systemic discrimination and intimidation from the government and society at large.

## 11 | Economic Performance

Bangladesh's economic performance in 2008 and 2009 was strong, resilient, and impressive. The country weathered global economic challenges and an adverse global trade environment. The principal adverse effect of the recession was a slight reduction in export revenue in 2009, but the overall performance of the sector was good. The export sector has withstood the global recession well due to a number of factors but most importantly because of the competitive strength of the RMG industry. This strength derives from the innovativeness of entrepreneurs, duty-free access in all developed countries except the USA and, most importantly, an abundant supply of cheap labor. In the past 30 years (1979 – 2008), remittances have emerged as a key driver of economic growth and poverty reduction in Bangladesh. There has been a healthy rate of growth in the flow, which has increased at an average annual rate of 19%. Bangladesh received \$10.72 billion in remittances from workers overseas in 2009, up about 20% from the previous year. The growth rate of the flow of remittances dipped in 2010. The total inflow of remittances in the country was \$10.99 billion – higher than the previous year, but only a 2% increase. The decline in the growth rate of remittances is attributed to the decline in overseas jobs because of the global economic recession. The country's overall economy consistently maintained its performance of previous years. In the years under review the growth momentum continued and international reserves increased despite severe import pressures. Overall GDP growth rates are high: 5.8% in 2010. Strong performance in agriculture and non-farming sectors contributed to the growth, along with an increase in public spending. In 2010, one of the key sectors which grew dramatically was the telecommunication sector, and especially mobile telephones. Six mobile telephone companies added 16.215 million new subscribers. It was an impressive 31% rise in a single year. This sector is expected

Output strength  
6