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Year end thoughts

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THE Year 2003 has been a tumultuous year. The year ends with the capture of the former President of Iraq, Saddam Hussein. But who can say that this is the end of the drama?

Let us start with our own country. In truth, the year has been quite barren for us in Bangladesh. The seemingly never-ending quarrel between the ruling BNP and the opposition Awami League has reached new heights and three appears to be no prospect in sight that they are going to resolve their differences. The focal point of politics -- the Jatiya Sangshad -- has reached the point of irrelevance. The main opposition Awami League continues to remain absent from its sessions. The ruling BNP, whose duty it is to assure opposition participation, appears to have given up.

I spent several months abroad and have looked in vain for news from Bangladesh. My foreign friends question me as to why is it that there never is news of Bangladesh. The truth is that our internal squabbles don't make the international news. Thus the state of affairs can be called barren. This is surely an abnormal state of affairs. In the midst of all this, former President Dr. Badruddoza Chowdhury has emerged on the political stage and has been very critical of the performance of his party. But it is too early to say how things will shape up.

If Bangladesh has been barren, the world has witnessed a turmoil the likes of which it has not seen for a long time. The year has been totally dominated by Iraq. Broadly speaking, the US along with the UK launched a totally unjustified war against Iraq last March. Given the difference of strength between the two sides, it was a short and bloody affair. The process of waging war against Iraq divided the Security Council, as the US and the UK found themselves quite alone. France, an influential member of the Security Council strongly opposed the US-led resolution and Russia and China along with non-permanent members like Germany went along.

Baghdad, the capital of Iraq, was severely bombed as were many other parts of Iraq. Iraq lay prostrate as coalition forces led by the US entered Baghdad. On May 1, US President George Bush announced victory. His announcement, as later events have proved, was a little premature. The Iraqis have waged and continue to wage a guerilla war, targeting mainly the US forces and increasingly the Iraqi collaborators of the present regime.

The US continues to pay a heavy price for her occupation of Iraq. The death toll of US soldiers is more than what she lost during the war and the toll is mounting daily. The body bags of US soldiers returning home is not a pretty sight.

President George W Bush appears to be in a hurry to pull his forces out of Iraq. The deadline set by him is July. Before then he intends to patch up an Iraqi Government and hand over power. The process will be sanctified by some kind of election. Looking at the present administration of Iraq, it appears that they will continue to play an important role. Interestingly the present team appears to be dominated by Kurds like Masud Barzani and Jalal Talabani along with the Foreign Minister Hussein Zabari. Adnan Pachachi, another important member of the team, is also a Kurd.

There are three main ethnic groups in Iraq -- the Shias, the largest group, followed by the Sunnis and then the Kurds. It should be noted in passing that the US and long before them the British have been trying to create a Kurdish state in the north of Iraq. This has led to endless friction between the US and her loyal ally, Turkey, because there are many more Kurds in Turkey than northern Iraq. It is again the Kurds, who have willingly collaborated with the US with the hope of getting their long cherished dream of Kurdistan realised. Unfortunately for the Kurds none of Iraq's neighbours -- Iran, Turkey and Syria -- all of whom have Kurdish population, want to see a Kurdistan. With the help of US bayonets the Kurds appear to be in the driver's seat today. Once the US troops pull out the situation may change dramatically. For the US to pull out without stabilizing the situation, would leave a bad taste in the mouth.

The US appears to be in a hurry for the simple reason that the US Presidential elections are around the corner in almost exactly one year's time. For President Bush there is a one point agenda -- to get reelected. Just now he appears to be riding high because as it was announced by his representative in Iraq Paul Bremer: "We got him!" meaning the capture of Saddam Hussein. Had this event led to a decrease of the guerilla warfare of the Iraqis, President Bush could heave a sigh of relief. But that prospect looks dim. Meanwhile, President Bush appears unable to cajole any of the three remaining members of the Security Council to contribute troops to his coalition forces.

The lesson that we can learn from the misadventure in Iraq of President Bush is that the severe blow he received on September 11, 2001, so completely rattled him that in order to prove that the US was still a superpower, he had to lash out. Afghanistan was a small fish and the mastermind of September 11, Osama bin Laden was a guest of the Taliban government led by Mullah Omar. Afghanistan was not satisfying enough and President Bush, along with his ally Prime Minister Tony Blair, decided to invade Iraq. Many articles have appeared suggesting that Ariel Sharon provoked President Bush to attack Iraq. Sharon, the Israeli hawk wants to dominate the Middle East, riding on the back of the US, and Saddam was a formidable obstacle.

Through her war against Iraq, US has attempted to reestablish her superpower status severely dented on 9/11. Western Europe by refusing to toe the US line has demonstrated that there is another centre of power. Cool heads in the US will not fail to draw appropriate lessons. The European Union continues to emerge as a formidable presence. Population-wise it is the third largest in the world after China and India. In economic power it is today among the strongest and its currency Euro has left behind the mighty Dollar. In May, the EU will become a union of 25 member states with ten new additions. Such is the magic in the name EU that more and more countries are queuing up. Turkey has been attempting to join this body for nearly four decades. She appears tantalisingly close to wresting a date for the start of negotiations for eventual membership.

THE HORIZON THIS WEEK

As we enter 2004, what is uppermost in our minds is the turmoil through which the world is passing. It appears to me that it is due to the convulsions through which the world's lone superpower is passing after having lost the status on 9/11. It is a painful adjustment. Today the US is by far the preeminent power, but as the events in Iraq have demonstrated and continue to demonstrate everyday, to come to terms with the loss of her superpower status is the most painful experience of her tumultuous existence.

Near home, Indo-Pakistan relations appear to take a turn for the better. In the beginning of January, Indian Premier Atal Behari Vajpayee is due to meet President Pervez Musharraf of Pakistan under the SAARC umbrella to be held in Pakistan. Efforts have gathered pace for clearing the decks so that a serious dialogue may begin. It may be recalled that nearly three years ago Bus diplomacy had started between Premier Vajpayee and the ousted Pakistani Premier Nawaz Sharif. Vajpayee had set his heart to a successful dialogue with Sharif. Nawaz Sharif was an elected Prime Minister of Pakistan. The constituency of Gen. Musharraf is the armed forces. In case he succeeds in his enterprise, will he be able to obtain popular sanction within Pakistan? On the other hand given the power structure of Pakistan, without the sanction of the armed forces, no deal appears feasible. As we are about to enter 2004, people of goodwill will hope that this will be the beginning of a turning of the tide in Indo-Pak relations.

The situation on the Palestine-Israel front has been totally barren with a lot of bloodshed. Holding carte blanche from his friend Bush, Ariel Sharon has literally gone on a rampage and killed and destroyed Palestine. Not content with his murderous run on defenceless Palestinians, he is busy erecting his 'Israeli wall' where he wants to hold Palestinians as prisoners. He will succeed as long his friend Bush is in power. It is sad to see the charade of negotiations between Palestine and Israel. Meanwhile the elected leader of the Palestinians Yasser Arafat languishes in what must be described as the broken down jail of Ramallah. The fact has to be squarely faced --so long the US is not even-handed in her dealing of the Palestine-Israel conflict as was the case with former President Bill Clinton, there is no hope of any resolution between the Palestinians and the Israelis.

Immobilism seems to be the order of the day within the Commonwealth. Zimbabwe continues to be ostracised. Britain appears unable to shed her colonial past. Pakistan in spite of her military dictatorship seems to have made some progress in getting readmitted to the Commonwealth. Malaysia has seen an important change of guard. That country took some big strides forward under the dynamic leadership of Mahathir Mohamad. China continues to gather strength quietly. Her forceful appearance on the world stage can only be a matter of time.

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Foreign Direct Investment

What shapes it and what shakes

JAMALUDDIN AHMED

FOREIGN investment can take two forms. Foreign equity investors can simply buy a stake in an enterprise or take direct interest in its management. The first indirect form of investment is called foreign portfolio investment. Foreign Direct Investment (FDI) involves more than just buying a share or security. It is the amount of financing provided by a foreign owner who also is directly involved in the management of the enterprise. For statistical purpose, the IMF defines foreign investment as FDI when the investor holds 10 per cent or more of the equity in an enterprise. As a rule of thumb, this is usually enough to give the investor a say in the management of the enterprise. With the portfolio investment, the enterprise benefits from the finance, and a sharing of risk. FDI can bring additional benefits to improve investment productivity by involvement in management, access to technology and market links.

FDI is regarded as one of the most important factors for the development process of developing countries. Initially, it is regarded important in providing additional capital to these countries where capital resources are scarce and labour plentiful. Such inflow of foreign capital brings about an increase in labour productivity and helps increase real wages. The theoretical approach explaining this kind of phenomenon was suggested by MacDougall (1960). The basic idea of this theory is similar to a few other economists' who try to explain why foreign direct investment is taking place, using theory of capital movement, resulting from the difference in inter-country interest rates. Among those pioneer economists are, for example, Ohlin (1967) and Nurkse (1972). These theories are based on competitive markets assumptions. On the other hand, new theories of international investment try to explain the phenomenon in the context of the theory of the firm, mostly in the terms of oligopolistic advantage of overseas investors or firms from investing countries.

Hymer's (1960) "specific advantage hypothesis" can be regarded as a starting point. In this theory, Hymer believes that the primary objective for firms to have overseas investment is to control foreign operations due to imperfect market power in the home market. This imperfect market power arises because of the firm's ownership-specific advantages such as better or superior technology, better entrepreneurship, etc.

Caves (1971) explains FDI in a similar way. Using his industrial economic approach, he argues that FDI in industries is characterised by certain market structures in both home and host countries. He divides FDI into horizontal and vertical. Horizontal FDI usually occurs in industries where product differentiation and oligopolistic power exist while vertical FDI occurs mainly because the firm wants to secure its raw materials or intermediate products for its own operation in the home market. Veroon's (1966) product life cycle is also popularly used to explain such phenomenon. Veroon's theory is basically technology oriented, and a dynamic model of FDI. Veroon believes that technological development usually starts in developed countries where there are large domestic markets and high-income elasticity. When a firm or a country starts developing its own technology, it will use such technology in the production process and later export the products to other countries. As the technology becomes standardised, the originator of technology will become less and less profitable. Thus, it forces the country that develops the technology to shift its resources into the development of new technologies.

Dunning's electric model (1982) could be regarded as the most comprehensive theory explaining FDI phenomenon. The theory explained that a firm will engage in FDI if three conditions, namely, the ownership specific advantage, the internationalisation-incentive advantage, and the location-specific advantage are simultaneously satisfied.

Blaming Bangladesh Bank or any other organisation including opposition parties cannot be an excuse for the reduced inflow of FDI... Time has come for the professionals and experts involved in the FDI to open their mouth, boldly exposing the pitiable and foreign-loan-syndrome-economy of Bangladesh...If BoI, reporting to Prime Minister's Office and Bangladesh Bank reporting to Finance Ministry can not agree to FDI calculation methodology then the question remains unresolved on how the International credit rating agencies shall rate Bangladesh in terms of reliability of FDI figures.

Early in twentieth century, a large part of the world's infrastructure was developed through FDI, including electric power in Brazil and telecommunication in Spain, Persian Gulf's oil fields, India's tea plantation, and Malaysian rubber plantation. British firms invested in consumer goods manufacturing abroad from an early date. German Chemical Companies were expanding outside before World War-I as were US auto manufacturers. The UK domination on FDI was apparent up to World War-II as USA became the engine of capitalist development. Escalating of commodity prices in the 1970s had two effects on FDI. First, high prices encouraged increased FDI in extractive sectors, particularly in oil and gas. This benefited countries such as Congo, Equador, Indonesia, and Nigeria, which saw sharp increases in FDI in the early 1970s. Second, the balance payment surpluses of commodity exporting countries provided an abundant source of ingestible capital. This money was recycled to developing countries through a large scale sovereign lending by commercial banks. Added to this many developing countries in this period encouraged inward oriented approaches, often expressly aimed at delinking from global economy and FDI fell sharply and continued to stagnate into the first part of 1980s.

The IFC survey (1997) rated FDI flows of 12 countries dividing the period into 1970-79, 1980-89 which and 1990-96 revealed interesting findings. Resulting from government policy and international environment Brazil was ranked number one during 1970-79 and second in 1980-89 period. Nigeria was the third highest recipient of FDI during 1970-79 and during 1980-89 it was rated 10th. However, in 1990-96 it had no place among the top 12 countries. Malaysia was the 4th largest FDI recipient during 1970-79 and retained the position during 1980-89 and graduated to 3rd position in the 1990-96 periods. Indonesia was the 5th largest FDI recipient during 1970-9 and 11th in 1980-89 and graduated to 5th in 1990-96. Greece was the 6th largest FDI recipient in 1970-9 and 7th in 1980-9 and had position in 1990-96 among top 12 countries. South Africa ranked 7th during 1970-9 but relegated from the list of top 12 countries in 1980-9 and 1990-6 periods. Similarly Iran and Algeria scored 8th and 12th position in 1970-9 but no position during 1980-96s. Egypt scored 9th position in 1970-9 and graduated to 5th in 1980-9 and had position in 1990-96 while Equador scored 10th position in 1970-9 but no position among top 12 FDI recipients in 1980-96. Thailand graduated from 11th position in 1970-9 to 8th position in 1980-9 and 6th position in 1990-96. China scored no position in 1970-9 but gained 3rd position in 1980-9 and finally took first position in 1990-96. This was possible for the change in economic policy since 1979. Surprisingly, China's FDI rapidly caught up with its size and rate of economic growth. By contrast, the next largest developing country, India, remains way down in the list, with FDI of only 0.6 per cent of GNP, against China's 4.8 per cent. This reflects India's, relatively slow progress like its nearest neighbour Bangladesh, in restructuring growth and orienting its policies to encourage FDI.

For attracting FDI developing countries should keep in mind that with the opening of central and eastern European communist countries FDI is getting diverted from other developing countries. Incoming of FDI also depends on the system of running a government. For example, Algeria and Iran occupied position among top 12 FDI recipient countries but the wave of Islamic revolution changed the situation after 1980s. Similarly, rise of radical Islamic fundamentalism in some countries like Afghanistan and Pakistan and Turkey have witnessed the decrease in FDI flow. Foreign Investment Advisory Services (FIAS) of USAID study (1990) identified Mediterranean basin as a vulnerable investment area where hundreds of West European, North American and Japanese companies having knowledge of those countries with rise of radical Islamic fundamentalism, do not consider the countries there as prospective investment sites and exclude them as too risky to include in their corporate business strategy.

In Bangladesh, the present unfavourable law and order situation, spread of rampant corruption within the government, bureaucratic tangles towards deregulation and liberalisation, all combined, have damaged the FDI friendly environment. Examples are easily available from the daily newspapers and electronic media. Over and above, deteriorating law and order situation, Islamic Fundamentalists sharing power with the current government, widespread interference of Special House in every government decision where lion consideration is bribe, are considered to be vital contributory reasons for reduced inflow of foreign investment in Bangladesh now.

Blaming Bangladesh Bank or any other organisation including opposition parties cannot be an excuse for the reduced inflow of FDI. This lies elsewhere; to my mind, within government itself including BoI and other relevant GoB agencies connected with processing of FDI inflow into Bangladesh. Time has come for the professionals and experts involved in the FDI to open their mouth, boldly exposing the pitiable and foreign-loan-syndrome-economy of Bangladesh. If BoI, reporting to Prime Minister's Office and Bangladesh Bank reporting to Finance Ministry can not agree to FDI calculation methodology then the question remains unresolved on how the International credit rating agencies shall rate Bangladesh in terms of reliability of FDI figures. The way things are going we should wait for worse days in terms GDI. The Chairman of BoI is not the recognised authority to dictate the methodologies to figure out FDI inflow rather it should follow accepted international practices.

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Why insurance assumes importance in our life?

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THE people in this part of the world have possibly not fully aware of the utility of insurance like those in Europe and America. In Europe, they are encouraged to insure life, property, valuable machine and equipment, which even include television, computer and oven etc. Not many people in Bangladesh subscribe to life insurance, not to speak of valuable gadgets. According to one estimate, Tk 3993 million and Tk 7935 million were invested in life insurance during 2000 in public and private sectors, respectively.

Against 123 million people this investment appears to be negligible. Tragic road accidents, launch disasters and murders have become routine affair in the country. There has been a distressing picture in Bangladesh because people are not encouraged to go for life and property insurance.

In view of many accidents, vehicles of different types along with travelling passengers including driver need to be insured. Against the backdrop of an indifferent attitude towards insurance, there is perhaps need for an awareness campaign to be launched by insurance companies themselves.

It was undoubtedly a shocking news that none of the victims in ill-fated MV Nasreen, which capsized in the river Meghna on 8 July 2003, were insured. As a result, parents or families were deprived of probable insurance benefit. However, had the insurance policy been applied to passengers on compulsory basis the owner of the launch MV Nasreen would have taken extra care to ensure safety of the passengers.

The concept of insurance is not a new phenomenon. Insurance in fact has existed for thousands of years. A form of credit insurance was included in the code of Hammurabi, a collection of Babylonian laws said to be predating the Law of Moses. Prophet Moses instructed the nation of Israel to contribute 'a portion of their produce periodically for the fallen resident and fatherless boy and widow.' The history of insurance could be traced back to those days when traders were encouraged to assume risks of trade being done by caravan through loans, which were repaid with interests only after the goods had arrived safely. According to Islamic tenet, insurance is permissible on the basis of mutually helping each other for a financial protection against risk.

Insurance companies began establishing in mid sixteenth century in London when Edward Lloyd was running a coffee house where merchants, ship owners and underwriters used to meet to transact business.

By the end of eighteenth century Lloyd had turned into one of the first modern insurance companies. Lloyd along with Tyser, Munich Re and Swiss Re have become re-insurer worldwide. For example, if a Bangladesh insurance company seeks business with a foreign company, it should signs an insurance policy under the umbrella of re-insurance arrangement with Sadharan Bima Corporation, the government owned re-insurer and worldwide known re-insurer like Lloyd. This is done to protect the interests of the clientele as any amount of insurance is fully ensured and protected on the basis of treaty insurance.

Global recession coupled with stagnant economy, political instability and deteriorating law and order situation in the country are causing hindrance in the development of insurance companies. Lack of education and knowledge about insurance is also responsible for not advancing in this field. The existing Insurance Act of 1938, which is obsolete, needs to be revamped commensurate with the need of the present day world in the interest of the development of the insurance industry in Bangladesh.

One should not consider insurance as an investment from where one expects to get one's money back with much of profit. In fact insurance works as protector against risks that exist in our day-to-day life. Therefore, insurance appears to be sharer of risk with others.

In insurance parlance risk is uncertain and insurers have defined risks as pure risk, speculative risk, fundamental and particular risks. According to New Columbian encyclopedic, insurance is a devise for indemnifying against loss.

The amount of premium is determined by law of averages as calculated by actuaries. Insurance companies also take into consideration the risk involved while calculating premium. This reminds me a case of health insurance in Germany. In European countries health insurance is a must for every individual. Insurer gets a certificate from registered doctor about the health condition of an individual before contract of insurance is made. If the person concerned continues to suffer from chronic disease of risk, insurer either refuses to execute contract or charge premium at a high rate. Modern insurance companies study statistics that show the frequency of past losses -- for example, losses from shop fire or car accident -- to find out what losses are likely to be experienced by their clients in future. Accordingly they calculate premium.

Earlier, in this part of the world (Bangladesh), a few insurance companies were in operation in British period. From 1947 to 1970, during Pakistan time, insurance business began expanding gradually. As many as 49 insurance companies, according to one report, were in operation. There were insurance companies dealing with life insurance only while other insurance companies were involved in general insurance and some others were dealing with both life and general insurance. Many insurance companies of British, American, Australian, Indian and Pakistani origin were in operation. The first insurance company with Bangalee capital was established in 1958. And Sheikh Mujibur Rahman was the founder of this insurance company, known as Homeland Insurance Company.

When Bangladesh became independent, President's order of 1972 nationalised 49 insurance companies. Presently 45 insurance companies including life and general are in operation, but the insurance business in Bangladesh has not made any significant progress. Insurance companies were allowed to operate in the private sector during the regime of General Ershad.

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