Big Gap Between Savings and Investment

by Alan Chalkley

THE latest international banking analyses look at first like good news. "Banking activity last year increased more rapidly than in the previous year," says the International Monetary Fund (IMF), using its own sources and those of the Bank for International Settlements (BIS).

Lending and depositing rose by US$750 billion and US$710 billion, respectively, and were together up by one-third. Claims by international banks on non-banking institutions were up by their largest-ever amount. It all looks very happy until this survey adds: "Claims on developing countries...increased US$8 billion, following a decline of US$9 billion in 1988." So debts are not being paid off, net.

How did the most-indebted 15 nations fare?

Claims on them alone fell US$1 billion last year — but this is a tiny amount, and much smaller than the US$16 billion decline in 1988. Conclusion: The debt problem is not improving.

Are we doing any better in Asia than in the indebted nations of Africa and Latin America? Deposits in Asia are growing much faster than loans to Asian countries — but before you draw any gloomy conclusions from that fact, you should know that Taiwan accounts for most of the deposits (that country is full of money it just does not know what to do with), so the loan shrinkage is not serious.

Perhaps all you can say is that we in Asia are holding our own. Foreign indebtedness by such countries as Indonesia, the Philippines, China and the South Asian countries does not bulk large, or any larger, on the debt scene. Nevertheless, there are nagging delays in clearing debts.

One aspect of debt repayment deserves more attention than it is getting. The question that needs answering in this connection is this:

"If you know a debt is coming up for payment, what is the most straightforward way of meeting it?"

For the ordinary person, without all the cumbersome machinery of international funding, and ignoring all the jargon and fine - spun legal fiddling of Big Time borrowing, the answer is simple: "Well, I shall have to save up for it."

In international borrowing terms, are things that simple? Two researchers in the IMF have set out to clarify the role of saving in the world economy and their answer is: "Discussion of savings on a world scale may not be simple" but their findings are clear:

***"Saving rates have fallen sharply in many industrial and developing countries." Capital accumulation and economic growth have slumped, too.

***In developing countries the decline of savings has been especially steep — it is down by 8 percentage points form a peak of 30 per cent of Gross national Product in 1973 to 22 per cent in 1987, the last year for which we have thorough statistics.

The researchers concerned are Bijan B. Aghlevi and James M. Boughton, whose findings are summarised in the June number of Finance and Development magazine. They suggest five reasons for the savings slump:

The latest international banking analyses suggest that the debt problem is not improving.

***In some countries, there are more old people than ever before, because people are living longer, and older people save less. This age effect is likely to depress savings in the future, the writers suggest.

***Government tax policies can affect savings by individuals and corporations, of course. In general, if governments relax taxes, there is more private saving, and the opposite applies. In some countries in Asia, notably Singapore, governments have instituted "forced saving" — people are constrained legally to contribute to a national fund from their income, and there are then limits on how and when they can draw the money out again.

***In countries where the wealth of individuals and families has risen steeply, people are tending to imagine that they are now "so rich" that they do not need to save money so carefully. This is a false, and dangerous, illusion.

Money is not absolute; it is relative. Assets still require renewal and maintenance, even if they are easily acquired.

***Interest rates have risen steeply in recent times, but the effect on saving is ambiguous, say these researchers. Perhaps more important is the rate of inflation — when this rises fast, savings are discouraged.

***Ironically, if governments encourage freedom of financial markets, and if they deregulate the institutions like the banking system, then savings are not encouraged, but discouraged! The authors suggest that this is because the easy-credit offers (the credit cards, the quick loans for small borrowers, the cheaper mortgages for houses) seem to persuade people to think: "Now I don't have to try so hard building up a big initial down-payment for anything."

Taken all round, here is how you can judge whether your country is likely to be saving less, or more:

***If inflation is getting worse, then expect people to save less (and borrow more).

***If your average incomes have ceased to grow, then expect savings to decline.

***And, unfortunately, if your economy is largely based on agriculture, then uncertainties about future prices and harvests will tend to keep savings low.

One effect which the authors do not mention, because it is not in their chosen field, is that of political stability. If your country is politically unstable, then people will save more — but they will try to move the money abroad, first, and save it there.

Finally, the authors warn us that higher savings are not good in themselves — it depends on what is done with the funds when they have been saved. They write:

"If capital accumulation leads to increases in labour productivity and to improvements in the quality of the labour force, then a rise in the saving rate could lead to a permanently higher growth rate and not just to a higher level of output." Savings which are devoted to research and development, international trade and public investment in social infrastructure, are also likely to promote growth, the authors note.

It is possible to "over-save," in fact, and waste precious resources, slowing down the development process. The gap between saving and investment can crucially determine the rate of growth and rate of improvement in an economy.

The authors advise on an "appropriate policy mix for developing countries to promote saving." This would include tight tax polices, but at the same time ensuring that there is an adequate supply of credit to private individuals and companies. And one thing should be avoided because it chokes off saving — heavy taxation on income from capital (taxing interests receipts or capital gains, for instance).

— *Depthnews*

Illegal Banks Flourish in Tanzania

Trade liberalisation in Tanzania has brought with it a new phenomenon, that of underground banks. Charging interest at around 120 per cent, these clandestine operations service businessmen who need cash in a hurry. Orthodox banks, reports Gemini News Service, are bypassed, lost in a time-wasting morass of regulations. by Pascal Baylon Shija

A man walks quickly across a street in Dar es Salaam and enters an almost-empty shop. It is about 6.30 pm, already dusk.

After a brief stay in the shop the man emerges — without the paperbag he had entered with.

Those in the know will tell you that the man is one of the numerous clients of underground banks in the Tanzanian capital.

According to financial sources, some Tanzanian shillings (Tsh) 40 billion — about $200 million — is circulating in the country outside the official banking system. That is about 35 per cent of the total amount of money circulating in Tanzania.

According to the local media, three tycoons operate these underground banks in the capital. Clients of the banks use the money to purchase items abroad and then sell them locally at steep prices.

This system is very difficult to apprehend, says the Business Times, because it is protected by high-ranking officials responsible for law and order.

The Times quoted the Chairman and Managing Director of the National Bank of Commerce, Amon Nsekela, as saying that he knew about the existence of the underground banks. So did the Governor of the Bank of Tanzania, Gilman Rutihinda.

Clients of underground banks can borrow millions of shillings without documents or signatures. Most clients are businessmen who require quick money not offered by the established banks.

They will pay as much as 120 per cent in interest as against about 30 percent in commercial banks.

Underground banks have apparently flourished because orthodox banks are too slow. The Business Times reported that one customer had to wait three months to get an overdraft of Tsh 2 Million at his bank. By the time the overdraft was approved the customer had lost the deal he needed the money for.

Rumours of underground banks in Dar es Salaam surfaced in the mid-1980s. They were thought to have been run by private accountants who offered the service to their businessman clients. The Treasury investigated the rumours but could not confirm the existence of the banks, says an official in the Ministry of Finance.

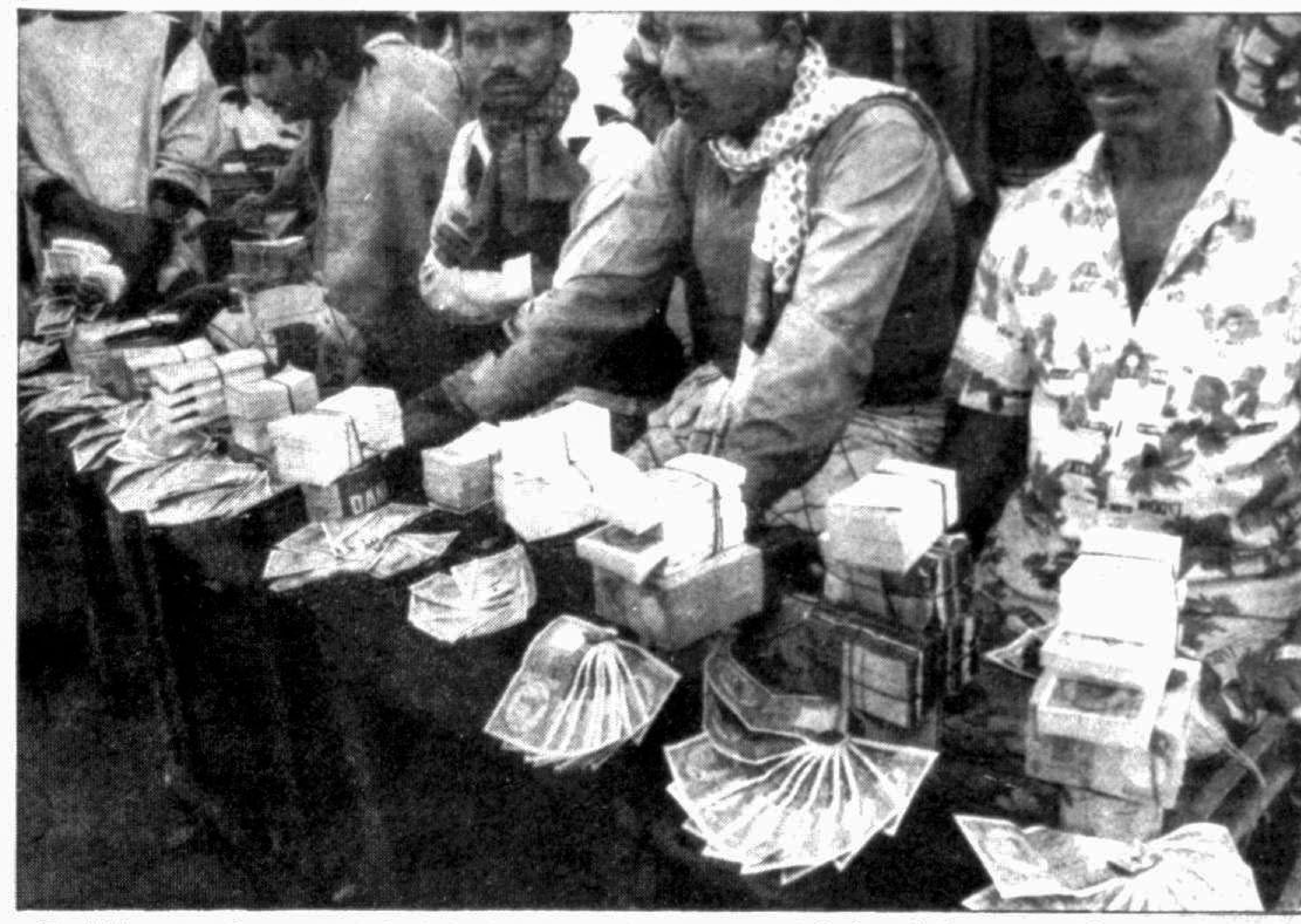
"Business Times" also reported network of between 20 and 30 moneylenders, especially in the northern coastal town of Tanga and the Lake Victoria port town of Mwanza. They will lend up to Tsh 10 million.

A prominent businessmen in Tabora, Pyra Singh Sokhi, says the underground banks are mostly small shops, with almost empty shelves. Clients do not sign any documents. In this way the transactions cannot be traced.

Sokhi says there is little fear of swindling because a swindler would be blacklisted by word of mouth, and "may even lose his life."

Two statutes exist to deter such activities. One forbids the holding of more than Tsh 1 million outside the legal banking system. The other prohibits currency hoarding. However, statutes are regarded as impractical by some Dar es Salaam businessmen who, following the introduction of trade liberalisation measures some five years ago, need much more cash liquidity.

The Tanzanian Chamber of Commerce, Industry and Agriculture has suggested that private credit markets be licensed. Instead, the government has increased the number of commercial banks. For example, the Tanzanian Housing Bank, a state lending institution, will soon become commercial.



Roadside money-changers with fresh banknotes await customers in need of small changes or with worn-out notes to exchange against small cuts. This business is flourishing in the old parts of the city including Chawkbazar areas as the banks apparently cannot cope with the public demand on that account. — Star Photo.

Power to the (Poor Female) People

Equality, like charity, may be best begun at home. If so, the womenfolk of rural poor communities, most particularly those in so-called traditional societies, are clearly furthest away from being on par with the men. How to help them? One small United Nations agency is trying. In an interview with Gemini News Service its President explains what it is doing. by Eve Kouidri Kuhn

IDRISS Jazairy likes to tell the story of what happened when the Rome-based International Fund for Agricultural Development (IFAD) helped modify some swampland in The Gambia for rice cultivation.

It goes this way : "When these areas were swamps, they were the property of women. When they were improved, the men took over."

The sequence is familiar, but this story has a happier ending. Inquiries showed that the land allocation committee were all male.

So IFAD persuaded the government to decree that they should be 50-50 male-female and, in this corner of the world at least, the emerging picture is less bleak for women.

At the latest session of the UN Commission on the Status of Women, Jazairy spoke as President of IFAD and called attention to some realities.

"The feminisation of poverty is found in all developing countries—and in fact in some parts of the industrial countries. This is a period when poor women are even less able then ever to protect themselves.

"One developing country after another has had to undertake major economic adjustment programmes which have meant less social and economic services. The result is a grater impoverishment of the poor and of the most vulnerable, who are women."

He said it was a tired old myth that "because women are half of the population, they will automatically benefit in the same way as men."

With a mandate to help the poorest of the poor, IFAD quickly realised soon after its inception that it would have to be dealing mostly with women.

In traditional countries such as Lesotho, women are still considered permanent minors from the legal point of view. Loans to them would have to be guaranteed by men. IFAD was able to form women farmers' groups and for the first time, obtain credit.

Women now receive 84 per cent of IFAD lending in Lesotho, where 60 per cent of rural households are headed by women because most men have gone in search of work to South Africa.

The women left behind face periodic drought and chronic poverty, but will now have access to credit from the Lesotho Agricultural Development Bank and IFAD, for basic technology to develop local crafts and off-farm as well as agricultural activities.

Not only lack of money is in the way. The rights of Man often do not extend to Women. Legally and (even more commonly) socially, the rights and powers of women are limited. As in Lesotho, so in Yemen and Togo and many other countries, says Jazairy.

He asks rhetorically : "How can you help the women? Let's focus on scavenger chickens. Let's not have the factories that have 5,000 chickens laying eggs. Men will take over. Let's help women develop scavenger chickens.

"It is less spectacular, but it certainly has much more direct impact on women. Let's help them develop their backyard agriculture, producing the tural ego of the male-dominated society.

One novel approach is to use husband-and-wife extension workers on bicycles. In Pakistan such couples ride to remote farming areas to deal directly with and extend credit to men and women villagers—in effect taking the bank to the poor farmer, ensuring that women have the same access to credit.

"Poverty is bankable," says Jazairy. "Poor women are clearly bankable because their rate of reimbursement is often higher than that of rich (male) land owners. So if the banks want to make money, they should think about lending, in some countries, to the poor rather than the rich."

IFAD's concept of banking is also tailored to the needs of the poor. Because the credits are distributed over wide areas and the amounts borrowed are small—$50 loans do not justify bank branches—what it aims for is the most cost-effective way to disburse the loans.

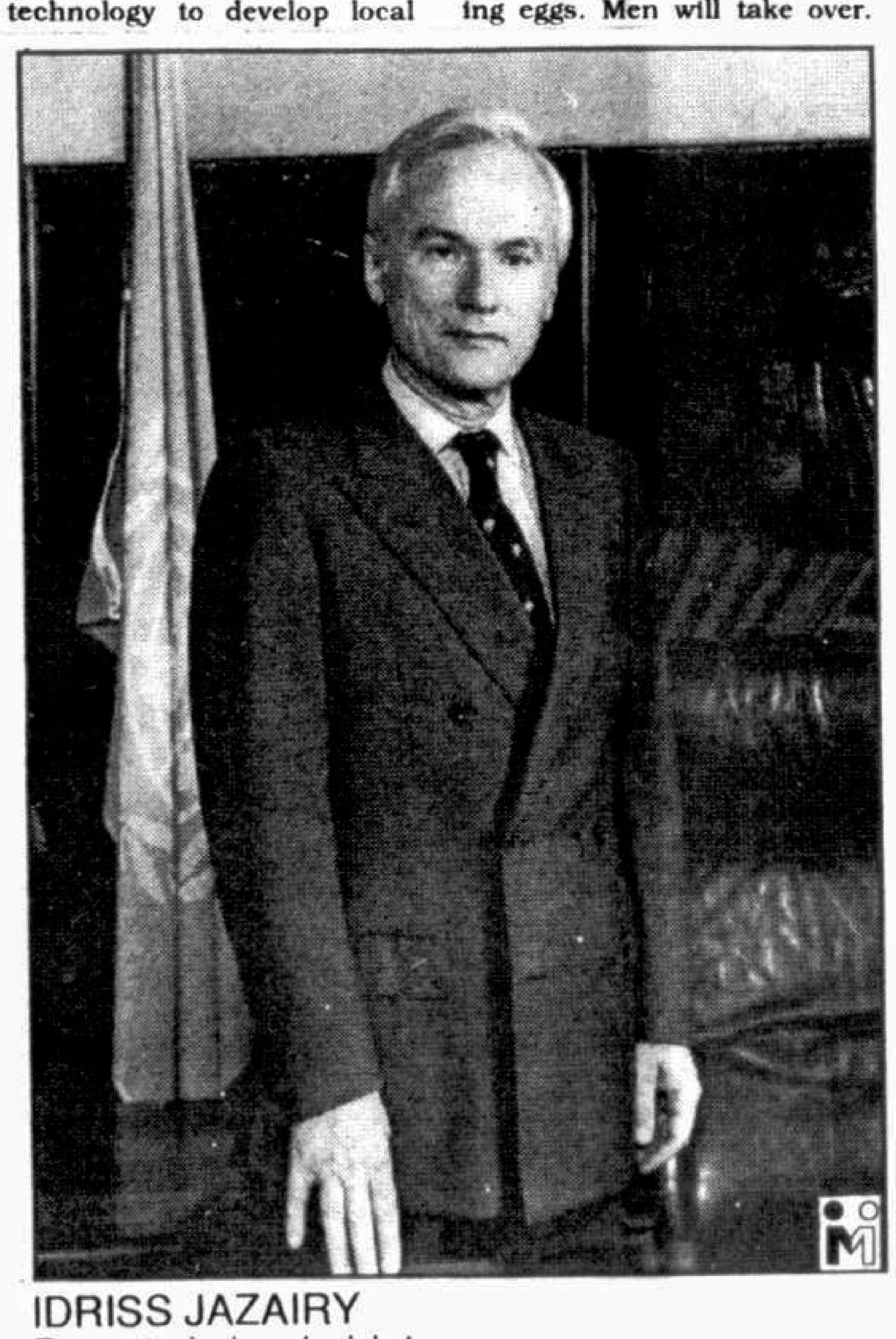
Generally, local distributors get one per cent of the credit loan to cover their costs. They use the profits to develop village activities.

All this only dents the box in which many women find themselves—without legal rights to own property or social independence from their men. Returning migrant males take over the roost.

—GEMINI NEWS

Exchange rate : $1 = 2.7Maluti

Eve Kouidri Kuhn is a Vienna-based freelance journalist, who writes for the UN Observer and broadcasts for the West German radio service Deutsche Welle.



IDRISS JAZAIRY
'Poverty is bankable'

Vietnam Bears with Eternal Embargo

by Tom Fawthrop

HO CHI MINH CITY : Despite the advice of allies, the lobbies of American businessmen and the much-ballyhooed end of the Cold War, little impact has been made on the US government's Vietnam War Syndrome.

There is still little indication that the United States is prepared to normalise relations with Vietnam.

And many of Washington's allies, US businessmen and development specialists are dismayed that the US trade embargo is still rigorously enforced against Hanoi—16 years after the end of the Vietnam War.

The punishment by Washington continues, despite Vietnam's record of economic reforms and increased cooperation on the obsessional issue of American GIs missing in action (MIA).

US businessmen in Southeast Asia have now joined a growing lobby on Washington pushing for economic sanctions to be lifted—at least to allow American companies to do business in Vietnam.

David Gibbons, the president of Bangkok's American Chamber of Commerce, argues that "We can do more for peace in the region by lifting the embargo than by continuing to punish and old enemy."

Hopes were raised last September that Washington was finally seeing the light when US Secretary of States James Baker received Vietnam's Foreign Minister Nguyen Co Thach in Washington.

In October 1990 Washington again used its veto to block International Monetary Fund loans to Vietnam. An Italian government telecommunications and aid package has been obstructed by COCOM (a US government agency preventing US allies in Europe selling technology to Communist states). That US$140 million deal has been suspended in deference to Washington's objections.

The enforcement is so rigid that Air Vietnam's contract to purchase two Airbus 300 aircraft has not been honoured because these European planes use US engines. A second attempt by Air Vietnam to obtain a Western plane — a Dutch lease on a Boeing 737 due to be delivered in January 1991 — was also blocked. US travel agents have been prosecuted under the Trading With The Enemies Act for selling tours to Vietnam.

US businessmen are also complaining that the embargo is hurting them as well as Vietnam. The American Oil Company MOBIL desperately wants to join the race for Vietnam's offshore oil exploration which has already generated substantial foreign investment.

Vietnam has signed contracts with the Soviet Union, Shell and French, Swedish, Canadian, Indian, Malaysian and Australian oil companies. US companies can only fume in frustration as their government prevents them form competing for lucrative contracts.

Lifting the embargo would help US businessmen and encourage regional stability.

According to John Kamm, President of the Hongkong Chamber of Commerce, lifting the embargo would not only help US businessmen but also "our government would be signalling its encouragement of Vietnam's reform process, a positive force in developing regional stability."

Meanwhile the success of a United Nations (UNIDO)-sponsored foraying investment forum in Vietnam held on March 11-16th which resulted in 11 more contracts signed in just one week, is another reminder that US businessmen are losing out to their competitors from Europe, Australia and Japan.

Australian businessman Ray Eaton, a leading Western investor in Vietnam, is more concerned about Vietnam's suffering than US businessmen missing out. He told an investment seminar in Bangkok, "to endlessly force Vietnam and its people to remain in dire financial straits and have only minimal possibilities of improving their situation is unfair, and tends to suggest a vindictive image unworthy of such a fine country."

Foreign bankers in Ho Chi Minh City are all agreed that lifting the US veto in the IMF is critical to paving the way for substantial aid programs from the West.

John Brinsden, the representative manager of Standard Chartered Bank in Ho Chi Minh City, told Depthnews : "The embargo has made investors cautious. If it is lifted, confidence will jump, and the aid pipeline will also be unblocked."

The Asian Development Bank has long been preparing a US$40 million program to upgrade the city's infrastructure — both roads and port facilities. But everything hangs on the IMF go-signal.

Washington's embargo was in place by September 1975. Other Western countries joined the boycott after Vietnam's invasion of Cambodia in 1979.

For 10 years the US government made Vietnam's troop withdrawal from Cambodia a primary condition for the normalisation of relations between the two countries.

In September 1989, Vietnam withdrew all its fighting units leaving behind just military advisors and technicians.

However, despite Vietnam's policy reorientation and eagerness to cooperate with a political settlement, the Sword of Damocles hangs over Hanoi's economic development.

Assistant Secretary of State Richard Solomon addressing a conference on US business prospects last December made it clear that normalisation would not proceed unless two conditions were met.

First, Washington insists that the signing of a UN peace settlement based on the "Big Five Paris Plan" is a precondition for serious steps towards reconciliation with Vietnam.

At a time when China has owned up to continued arms supplies to the Pol Pot's Khmer Rouge, many analysts consider it is again one-sided to saddle Vietnam with the sole responsibility for delivering a comprehensive political settlement.

But even if a diplomatic miracle is accomplished by the successful conclusion of the Paris Peace talks with a grand Treaty on Cambodia, Hanoi will still have to clear some more hurdles to satisfy Washington that the moment has finally come to bury the past, forget the Vietnam War and permit normal aid and trade.

The MIA (American soldiers missing in action) is the issue that refuses to die — even though no other nation in the history of warfare has ever demanded such a comprehensive accounting of their casualties.

Many remains of GI bones gave been handed over to special US military teams. In January the Pentagon dispatched a team of intelligence analysts to examine Vietnamese military archives for further clues about the remains of nearly 2300 Americans reported to be MIA's.

Still Washington, while approving of these acts of cooperation and goodwill, always demands more before they will reciprocate by lifting the embargo.

Ray Eaton, the Australian businessman, relates that while the "American people are held in very high regard by the Vietnamese, bitterness and disappointment almost bordering on despair is increasingly emerging towards the official US government policy."

The Australian government is one of the few Western governments that have actively promoted trade and investment in Vietnam. Canberra's foreign minister Gareth Evans has also argued that ending the US blockade serves the interests of regional stability.

In an address last year to the Australian National University, Mr. Evans commented, 'it is ironic that at a time when Vietnam's ally, the Soviet Union is rapidly repairing its relations with the West, Vietnam should somehow still be seen as part of the Evil Empire."

— Depthnews Asia.