The Daily Star
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Disarmament and Development

Now that the five permanent members of the UN Security Council have reached a broad agreement to try to draw up a code of conduct for limiting arms transfer to other countries, we should be witnessing increased activities in this field. We trust, these activities will clarify the issues involved, involve the developing countries in a serious, substantive discussion with the industrial democracies and finally help in producing a realistic agenda on disarmament and development.

On this issue, the initial thinking articulated by senior executives of the UN system, including Barbar B Conable of the World Bank, has been largely realistic. For instance, while emphasising the fact that military expenses in most developing countries have remained "excessive", often exceeding the total allocation made for health and education, the World Bank President has conceded that it is not easy for an institution like his to determine what precisely would be the "adequate" level of a defence budget of a country which faces a threat from a neighbour. In this context, Mr Conable could have mentioned the rising military expenses of both India and Pakistan, but, as expected, he did not. Soon after the publication of the exclusive Conable interview in this paper, we now have a set of specific figures of what the Third World nations are spending on arms from another UN official, Enrique ter Horst, the Assistant Secretary General of the world body. According to Mr Horst, defence spending in developing countries is fast approaching $200 billion a year, exceeding the total expenditures on health and education and surpassing, as a proportion of gross domestic product, the military budgets of industrialised countries. As the UN official puts it, merely freezing such spending at current levels would free an average of $15 billion a year. When we compare these staggering figures to the worsening trade balances, shrinking foreign exchange reserves and rising external debts faced by the very same countries which are increasing their military budgets, one feels amazed at the contradictions underlying the dismal situation.

This is not the first time that attention has been focused on the need for the Third World countries to divert funds from military expenses to economic development. In the sixties, the report by Lester Pearson of Canada had made the same case which, a decade later, served as a centrepiece in the study by the commission headed by Willie Brandt.

However, what is new this time is an emerging consensus among the five permanent members of the UN Security Council that something must be done to reverse the process. This consensus has understandably much to do with the gradual end of the superpower rivalry between Moscow and Washington for military domination of the world. Again, there is also the realisation among developing countries that with diminishing prospects of aid from UN agencies and donor countries, now facing new demands for assistance from East European countries, they must step up the mobilisation of their own internal resources.

Yet, the question remains: What kind of actions will the countries concerned, the industrialised West and the Third World nations, take to translate their thinking into reality ? Will they settle for voluntary restraints or accept mandatory actions ? Will the West and Japan also go after their own private arms dealers who operate open weapon markets for the benefit of insurgent groups ? Unless these questions are answered, we see little hope of something emerging out of this discussion. Instead of more debates, let the world see some actions.

Fall in Mango Production

Believe it or not, our favourite mango may soon become a thing of the past. Well that is, if we sit back and allow things to go the way it has been going over the past two decades. According to a report of the nation's only Mango Research Centre, based in the midst of where it is grown — Chapainawabganj — the output of this incomparably delicious fruit has fallen by 70 per cent: from 4.5 lakh tons in the seventies to 1.5 lakh tons today.

Reasons for this miserable state of affairs are many, including low per acre yield, lack of incentives for commercial production, natural calamities, pest attack. If we add to this the private sector indifference and the absence of any official policy to improve mango cultivation, then we have the real picture as to why we are about to lose one of our best gifts from nature; one which, if properly cultivated and marketed, could turn out to be a top foreign exchange earner. For, no boast intended, there are few varieties of mango anywhere in the world that can match the excellence of our 'langra'.

But then who can help our mango if we are out to destroy it ourselves! However else can we explain the absence of any governmental concern at the present state of affairs? At the very outset we must decide to produce this fruit in a manner and scale that makes it commercially profitable. We must build the necessary infrastructure to support this agro-industry, which in this case means building roads that connect mango gardens with the main centres of distribution. This will have to be followed by extending the necessary credit facilities to enable our entrepreneurs to set up mango processing facilities. Fresh mangoes are fine as far as they go. But the fruit's real future lies in canning and marketing it.

As the Mango Research Centre's report points out, there has been no scientific innovation to make the growing season longer and the fruit pest resistant. In this regard experience of not too far off Thailand may be of some use. They have made all their fruits taste better and available for longer periods than they would have normally been. This was done through scientific inventions and innovations of all kinds.

What we need at this moment is an initiative from the government to bring in all the interested parties — mango growers, traders, canners, processors, possible investors along with bankers etc. — together and launch a dialogue as to how we can turn this disappearing delight into a major growth industry. Given the quality of our mangoes, we think we can bring that turnabout.

The Crisis in BCCI : Options for Solution

by Iftikhar Karim

THE closure of the Bank of Credit and Commerce International Group (BCCI) worldwide by the various Central Banking authorities and the subsequent decision of the majority shareholders in Abu Dhabi to 'close down' Bangladesh operations and thereby not stand behind the assets/liabilities will have widespread repercussions on our economy.

BCC is a major bank in Bangladesh and its 'tentacles' in the economy are far reaching. Branches of BCC in Dhaka, Chittagong and Khulna handle considerable volume of foreign trade transactions — both export and import — by opening letters of credits (L/Cs) for clients importing raw materials, consumer goods and other items. Additionally, the bank provides short term finance for importers and working capital for industries. Similarly, short term finance is also made available to exporters as well as rendering other services which enable speedy shipment of goods abroad.

BCC is also a 'market maker' in providing bid bonds, performance bonds and advance payment guarantees on behalf of banks based abroad, in support of sales of services/goods, etc of the latters' clients in Bangladesh. BCC Bangladesh and its erstwhile branches abroad also do brisk business with Bangladeshi banks, maintaining operating accounts in foreign and local currencies and carrying out other transactions known in the banking trade as 'correspondent banking'.

BCC's clientele includes, besides individuals and companies, foreign airlines, embassies, other foreign organisations and other entities. In fact, every sector of the economy, be it trade, services, industry, government or non-government, in one way or the other does business with BCC. Closure of BCC in Bangladesh will, therefore, dislocate everyone. Besides BCC's own liabilities, the 'cross over effects' will trigger additional liabilities with serious ramifications.

Internationally, specially in this present age of the state of the art communications, the handling of the Bangladesh banking crisis, in all its aspects, will be closely monitored. It will result initially on 'brakes' being applied to financial transactions emanating from Bangladesh. In practical terms, all L/Cs opened by all banks based in Bangladesh may require prime bank confirmation abroad.

The BCC issue, unlike in India, Korea and the Philippines, where the impact vis-a-vis their respective economy is minimal, must be viewed as a national problem in Bangladesh and the following 'crisis management steps' may immediately be taken:

— An APEX COMMITTEE comprising, at least, of the Prime Minister, and Ministers for Finance, Industries, Commerce and Foreign Affairs.

— A WORKING COMMITTEE, chaired by the Finance Minister and comprising the Bangladesh Bank Governor, Deputy Governor, Executive Directors assisted by others, including experts in international banking and law, to ensure overall coordination. Hard decisions need to be taken and this will require political initiatives and the full use of banking and diplomatic channels at the Government's disposal.

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Decision to 'take over' BCC Bangladesh under the initial administration, supervision and guidance of the Bangladesh Bank and under the provisions of the Banking Company Act 1991, articles 58, 59 and others may be taken as soon as possible. Thus, the obligations by and to BCC Bangladesh is maintained viz status quo ante (position prior to closes) and a public statement by the concerned authorities is an absolute necessity. An announcement should be made that over time, small depositors will be paid. In the immediate future, deposits covered by insurance will be released forthwith, followed by unfreezing of all organisations', including companies', current accounts as well as 'time deposits' on maturity dates only. Thereafter, phasewise release of deposits, in line with the overall liquidity position of BCC, will be effected.

A 'lifeboat', in the form of a credit line (Funds) to 'cover unfunded assets, including bad and doubtful debts, will need to be funded. This credit line will replace funds raised from depositors and accordingly Bangladesh Bank may organise a 'consortium, including other commercial banks, to provide necessary funds.

All external foreign exchange effects will be honoured by BCC Bangladesh which is the case anyway and commitments made to BCC Bangladesh should be similarly in force. Thus L/C's opened by BCC Bangladesh may be redirected to other correspondents and all L/C's advised, confirmed and negotiated, for both export and import transactions, and letters of guarantee issued by BCC Bangladesh for imports on behalf of banks abroad, will remain in place.

Bangladesh Bank must also come down hard, under the laws of the land, on the management of BCC if any lapses are found on their part. Similarly, delinquent clients must also be dealt with severely under the law in order to protect the depositors. Severe cost cutting measures should be effected to reduce overall burden. Later on, BCC may be merged or sold.

After acquiring a majority stake in the BCC Group (77.4%), the Ruling Family of Abu Dhabi sent out 'clear signals' that they were 'backing' the BCC Group in all its aspects worldwide. Therefore a diplomatically but firmly worded communication to the majority shareholders in Abu Dhabi should be sent that despite the liquidation measures effected by BCCI (Overseas) Ltd Cayman Islands, the Bangladesh Government holds the shareholders responsible for depositors liabilities, liquidity shortage and unfunded positions thereof.

It may be noted that when Janata Bank, Abu Dhabi branch encountered a liquidity crisis in 1977 onwards, the UAE Government brought considerable pressure to bear on the Bangladesh Government as a shareholder and Bangladesh Bank, had to organise a 'lifeboat', ironically with the help of BCC Abu Dhabi/London. If the same argument is extended to this crisis, Bangladesh's interests may be protected to a considerable extent.

Through the diplomatic channels we must clearly convey to the governments concerned, that so soon after a devastating cyclone and tidal bore, we cannot now have the country's economy further ravaged by the sudden decision to close down BCC. Efforts should therefore be made to get the release of foreign exchange assets of Bangladeshi institutions abroad, if necessary as a special case.

A strongly worded message that Bangladesh should have been consulted before the closure decision was put into effect, should be sent to various Central Banks, in particular the Bank of England, the Central Bank of the UAE and the Cayman Island Monetary Authority, who have taken the arbitrary decision to 'shut down' BCC, without prior consultation or adequate notice. As a result Bangladesh institutional funds including correspondent placements/balances into receivership. This has caused severe damage to the economy. For example, if the Bank of England had given 48 hours notice to the Bangladesh Bank, on the 'proposed measures', appropriate actions could have been taken to protect our 'national interests'. The message should further state that the funds owed to Bangladeshi institutions be placed in a separate Bangladesh Bank account, maintained with the Bank of England cross referring specific transactions, eg Janata Bank placement with BCC Leadenhall to be transferred to Bank of England a/c Bangladesh Bank ref Janata Bank.

Undoubtedly, Central Banks worldwide have acted legally. We will not be able, therefore, to contest them on legal grounds and must ask for special dispensation. Not taking Bangladesh Bank into confidence is a major lapse and hence 'moral pressure' can be applied. Additionally, lapses in supervision and monitoring on their part, over the years, resulting in the closure and consequences thereof for Bangladesh must be pointed out.

Special efforts should be made to address the issue of 'economy damage' to the international press. Our diplomatic channels worldwide should be energised in this direction. Similarly, we should endeavour to address as large an audience as possible viz members of parliament or equivalent thereof abroad, well wishers, etc.

The issue, can be internationalised within the forums of SAARC and the OIC. The Central Bank should hold informal talks with its counterparts in SAARC, to work out joint strategies. Additionally, Saudi Arabia and Kuwait's assistance may be sought.

The WORKING COMMITTEE on BCC Bangladesh should, on an urgent basis, carry out comprehensive RISK MANAGEMENT of the bank's operations in Bangladesh and its 'cross-over effects' within the shortest possible time. This may include all banks/financial institutions assessments of BCC's risks. Such risks may cover placements made in local and foreign currencies, margin and correspondent balances, L/Cs advised/confirmed, back to back L/Cs opened, basis of BCC mother L/Cs, customer facilities given on the basis of BCC guarantees, other guarantee exposures, etc. There should also be a special risk assessment of BCC, including focus on contingent liabilities such as L/Cs, guarantees, etc and funded loan and overdraft portfolios. For example, BCC has issued guarantees in the form of performance bond and advance payment guarantee for the Jamuna Fertiliser totaling over US$ 25 millions. If BCC Bangladesh is closed down, the above will become meaningless and the government will technically be open to substantial risk vis-a-vis the contractors.

The backward effect that is triggered by a major bank closure should be very closely examined for its overall detrimental impact on the economy.

Many other issues will emerge in the course of deliberations and all these will have to be tackled efficiently and expeditiously.

It should be noted that Bangladesh Bank is the sole supervisory authority with considerable powers to 'police' the banking system and is the LENDER OF LAST RESORT. The public's faith in this institution will be strengthened if they are perceived to be handling this crisis efficiently. It is heartening to know that some of the above steps are already starting to be implemented.

In managing the crisis in the form of a 'lifeboat', funded by the banking community and with the support from the authorities in Abu Dhabi (majority shareholders) will contain the ultimate damage to the economy and will not be unduly expensive.

The author, a professional international banker, served as the Director General of the BCC Group in charge of France, Monte Carlo, Tunisia and Congo from 1982 to '85. At present he works as an international consultant.

G7 and Gorbachev : The Marketing of Reform

Etan Vlessing writes from London

Leaders of the world's richest nations meet today (Group of Seven meets in London, July 15-17). Leading their agenda will be the question of how to help stop collapse of the Soviet economy, with the consequences that such an event would have. Mikhail Gorbachev will be there seeking support for a reform package, formulation of which has very nearly split the Soviet Union apart. And the news is not good for the developing world either.

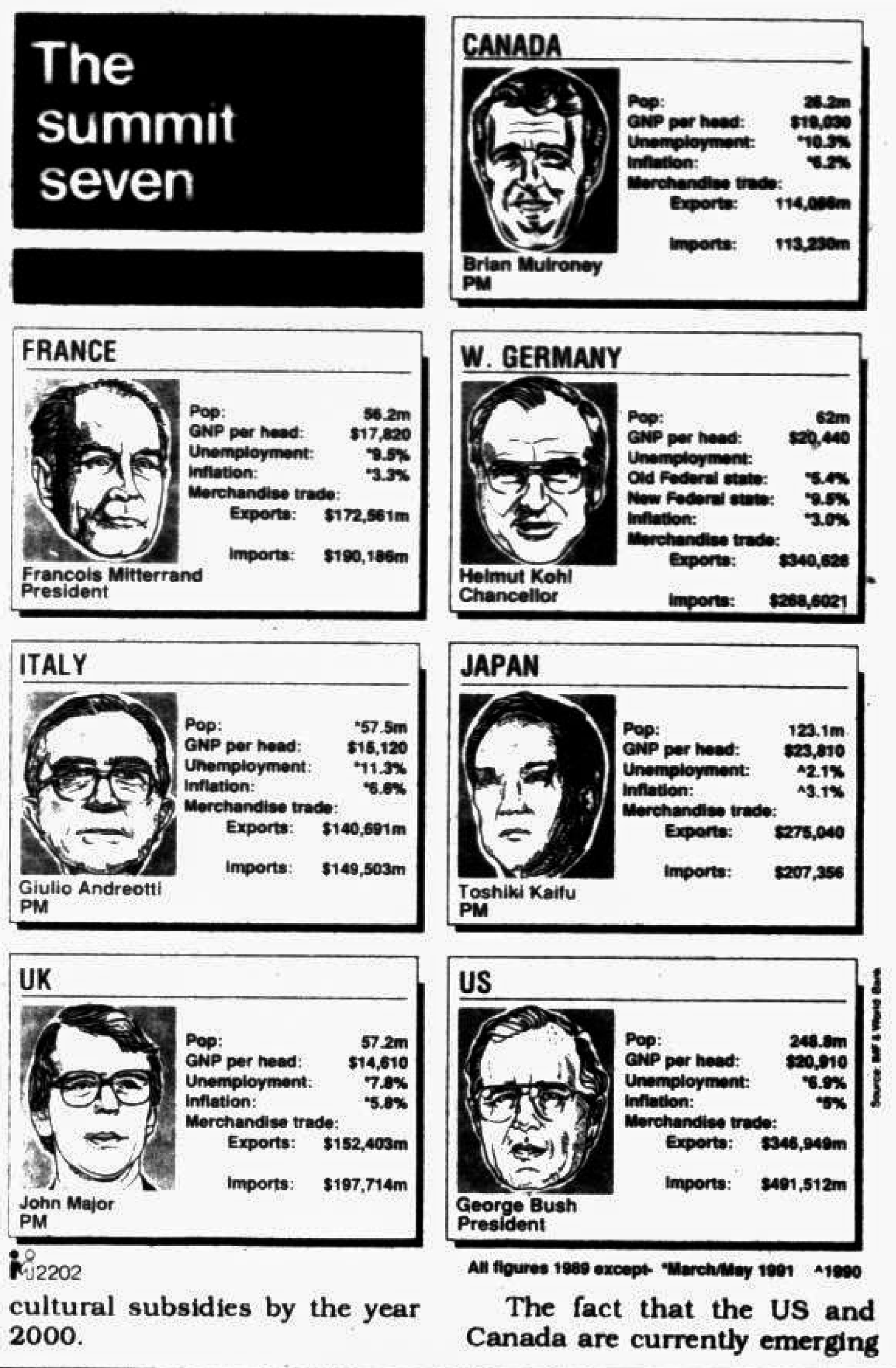
THE thorny issues of international trade and massive aid for the Soviet Union will top the agenda as leaders of the world's seven richest nations — the so-called Group of Seven (G7) — gather in London. Routine discussion of issues such as exchange rate coordination and monetary policy is expected to be overshadowed by tough wrangling on international trade barriers still remaining after protracted negotiations on the General Agreement on Tariffs and Trade (GATT).

The G7 comprises the United States, Japan, Germany, Canada, France, Britain and Italy. Its meetings usually aim at compromise. Many hoped this meeting might help bring the current Uruguay Round of trade liberalisation under GATT to a successful end by December, but few expect the right concessions to emerge.

This is an important moment for developing states. A continued lack of agreement on GATT in G7 would bring poorer states face to face with an unpalatable truth : just when they are looking to join the global trading system after years of distrust towards it, G7 nations are growing increasingly disillusioned with GATT and are favouring managed trade.

East European economies especially are keen to replace their former ties with the Council for Mutual Economic Assistance (COMECON), the ultimate in managed trade, with closer ties to the European Community (EC) and other Western markets.

The immediate threat to the GATT trade talks is the battle between the US and the EC on eliminating huge agricultural subsidies by the year 2000.



The fact that the US and Canada are currently emerging from recession, while EC member states are experiencing economic slowdown, only complicates negotiations. Once the US was powerful enough to order international trade to its liking, but now other G7 partners have their own agendas. These include Germany's unification programme, France's quest for European union and Britain's preoccupation with short-term electoral advantage.

The G7 leaders will also need to bridge their own differences on how the West can aid the Soviet Union as it introduces painful market reforms. Mikhail Gorbachev will make a much-touted visit to London to discuss with G7 a rescue plan for the stricken Soviet economy.

To ensure he does not upstage the G7 leaders, his visit has been timed for July 17, the last day of the summit. He will have working lunch and an afternoon round of meetings with the G7 leaders.

Gorbachev can expect to hear that only measures such as privatisation and price and structural reform can halt the feared collapse of the Soviet economy. If he does not go along with this, then he is likely to receive pledges of only millions, instead of billions, from the West, along with customary promises of technical assistance and policy advice.

Discussions will focus on Gorbachev's blueprint for recovery. In pulling moderates and hardliners into line to support a recovery package which G7 members might find palatable, Gorbachev has risked forging a deep split in his country's government.

The G7 leaders will not be easily convinced that perestroika can be raised from apparent death. They will debate whether Gorbachev aims at transforming his country's command economy, or merely propping it up. Gorbachev has been warned by G7 finance ministers that massive financial aid for Moscow has been ruled out until market reforms are seen to be effective.

The Soviet leader's visit also comes against the background of calls made on the West to help rebuild the Middle East and further market reforms in Eastern Europe. A collapsing Soviet economy would severely affect fledgling East European economies, most of which were once major exporters of goods to Moscow.

Faced with this challenge, some in G7 urge that Moscow be given associate membership of the International Monetary Fund (IMF). Germany is loudest in calling for aid to the Soviet economy. Western security, it argues, is dependent on a strong Soviet Union.

But for others, Moscow has lost its capacity to shock. News of possible military coups and civil war in the Soviet Union would have filled television and radio broadcasts had it come this time last year. Today, by contrast, hardened G7 partners are agreed they will not bankroll the Soviet economy, whatever its turmoil.

Some even accuse Bonn of fearing a surge of refugees descending on its eastern borders should a scenario of hunger and riot in the east ensue.

To guard against this prospect, they urge that efforts to integrate struggling East European economies into the EC and other Western markets should be speeded up to shield them from the effect of continuing turmoil in Moscow and its Soviet republics.

On this point, George Bush and Mikhail Gorbachev may trade a few words in assessing just how effective the EC's troika of foreign ministers have been in forestalling Yugoslavia's slide towards civil war.

The Americans will, as ever, be in a mood to throw their weight around, puffed up as they are by the end of the Gulf war. This will annoy the European partners in G7. Their recent stop-go diplomatic efforts in Yugoslavia, coming after their dithering over Saddam Hussein, makes it important for them to stand up to the US on trade issues.

It all suggests the usual end to such major gatherings : a cheery communique — after fierce in-fighting behind closed doors.

ETAN VLESSING is a British journalist working for the Financial Weekly in London.

To the Editor...

Letters for publication in these columns should be addressed to the Editor and legibly written or typed with double space. For reasons of space, short letters are preferred, and all are subject to editing and cuts. Pseudonyms are accepted. However, all communications must bear the writer's real name, signature and address.

Medical University

Sir, The recent announcement by the BNP Government that it will establish a Medical University in Bangladesh was welcomed by a section of interested quarters. But I think the decision, if any, needs reassessment.

I want to lay a few facts for consideration by the authorities concerned. In our country we have Agricultural University which covers an area of 1300 acres of land with 3,800 students; Islamic University 700 acres-1800 students; Chittagong University 500 acres-6000 students and Rajshahi University 400 acres-15000 students. On the other hand Dhaka University is situated on an area of 250 acres of land but it accommodates 29,000 students.

Each year at least 40,000 candidates try for admission to Dhaka University which can accommodate about 3800 only. In Jahangir Nagar University for 250 residential seats at least 20,000 candidates seek admission.

It appears that only Dhaka University is utilising its floor space, teaching materials etc. to the near optimum use but the picture is otherwise so far residential university like Jahangir Nagar and single subject universities like Engineering, Agricultural and Islamic University are concerned. We are the third poorest nation of the world. But, we are, I think, one of the few nations whose wastage and losses are the highest in the world. Our system loss in power sector is 42% and what is percentage of our wastage in Education sector is still to be assessed.

We can minimize the wastage by converting the residential universities and Engineering, Agricultural and Islamic Universities into general universities (the word 'University' will carry its real meaning), by this we can accommodate an additional number of 1,40,000 students and at least 15000 new teachers will get job.

We can further minimize the wastage by introducing one channel education system in the country.

After the above mentioned data I want to ask, do we really need a Medical University in a poor country like ours?

M. Saleem Ullah
Advocate
Motijheel C/A., Dhaka.

Exploitation of workers

Sir, What I am writing here needs thorough investigation. I have come to know that certain private small industry owners are seriously exploiting their workers and general employees. These people do not care to follow the labour codes or government rules. It is alledged that they grossly misbehave with the workers and employees. Often they physically assault the staff or workers and take unjust actions against those who fail to comply with the odd instructions of the owner or his party. Some owners said to have been deprieving their employees of universal service benefits, holidays as per government gazettee, etc. In most cases, the workers and employees are poor and helpless and they cannot protest because they have no other alternative occupation to earn their bread.

May I request the Government to form a Commission to investigate and examine whether the private industry owners and management are following the country's laws and ILO conventions.

M. Zahidul Haque
Assistant Professor,
Bangladesh Agricultural Institute, Dhaka-1207.

WASA bill payment

Sir, WASA authorities of Dhaka has fixed Maghbazar Janata Bank as sole collection agent for WASA bills of Eskaton-Maghbazar area. I tried to pay my WASA bills in May'91 several times but due to heavy rush, I failed to do so.

Ultimately I appeared at the bank counter before the banking hour starts but to my surprise, a dozen people were already there ! Can the WASA authority arrange some more banks and the Janata Bank also arrange more counters instead of one counter ? Further, an express service could be introduced so that by paying say one Taka more, one gets quicker service !

Sadik Alee
Maghbazar,
Dhaka.