Savings Mobilization and Capital Market

by Khurshid Alam

The importance of savings in development of capital market can hardly be over emphasised. Efficient savings mobilisations is perhaps the life blood of the capital market. The sine qua non of a strong capital market is a high GDP — savings ratio.

SAVINGS, in plain terms, represent that part of our income which we do not spend immediately. In countries like ours, savings are low because income of most of our people are low. What we earn is meagre and not enough even to meet our essential needs, in most cases. That leaves us only with marginal scope to save. Hence our savings rate is at a very poor level.

Least developed countries (LDCs), economists tell us, are very poor because they cannot save. As they cannot save, they cannot carry on capital formation. Hence they remain poor. Also their low income causes the markets of their countries so small that there is no incentive to invest in their countries. For this, there is no capital formation even by those who could afford the investment. Hence there is no growth, hence no incentive for capital formation affairs. These two vicious circle prevent growth.

Growth however requires the presence of modern infrastructure : Power plants good roads and so on. This infrastructure is economic only in large units. These large lump of investment cannot be afforded by the LDCs. Moreover, to justify investment many projects must be carried out simultaneously. Spending, out of the income created by the entire group, will then create a sufficient market for each. Therefore, to start growth there must be an initial massive broad thrust of investment, a "Big Push" presumably financed from outside the country.

There can be counter arguments to this "Big Push" approach to growth. Economic growth can begin even with fairly rudimentary improvements in the traditional small plants, improvements that make production of the same volume of goods with a lower total cost of inputs (Land plus labour plus capital). Not necessarily a big push is required then. Economising existing inputs can free resources for added production. Output and income per person in the economy can then rise slightly.

Savings : The Most Critical Factors

Unless a country starts savings and investing a reasonable proportion of national income, it can never hope to get out of the vicious circle of poverty. Savings is critically important to help maintain strong and sustainable growth. Fundamental motives for savings are almost similar everywhere, developed or developing countries. However, the environment in which savings decisions are made in developing countries is quite different from that of developed countries. Nonetheless, savings is a must for economic growth and development. The terms economic growth and economic development, are not however synonymous. By economic growth we mean a continuing rise in real per capita income of a country. It is achieved through continuous improvement in the technique of production throughout the country. Economic development includes many other economic changes that accompany economic growth.

Savings and Capital Market

Savings in whatever forms make investment possible. For a continuous process of investment, we need a steady supply of funds. These funds have to be allocated to productive investment. Capital market deals with medium or long term funds while money markets are meant for short term funds. For both capital and many markets, the prime mobile is savings.

In the context of a developing country, the capital market is critically important to its economic development process. It directly affects two of the major development goals: The mobilisation of savings and the channelising of investment into productive enterprises in order to create more goods and jobs as well as increase per capita income.

The main reasons for developing capital market are to : (i) attract an increased volume of medium and long term savings into the financial instruments and investment opportunities and (ii) improve efficiency in allocation of financial resources by allowing a broad spectrum of entrepreneurs an opportunity to obtain financing for their investment.

Savings performances of any country is determined by the level of its economics and financial development, the relative roles of public and private sectors, and its cultural and historical traditions.

On an international level far-reaching structural, financial and attitudinal changes are now taking place. Such changes have wider implications for the development process in the developing countries. Development funds in the form of grants and concessional loans from multilateral and bilateral agencies representing Foreign Savings, are getting more and more scarce. Budgetary uncertainties of the developed countries as well as the growing focus on The Eastern Europe in the light of their fastswitch-over to market oriented economic structure are largely responsible for it.

Foreign Private investment can only fill in a small portion of the gap left by reduced external flows. An increased flow of foreign commercial loans routed through foreign banks, is also not expected because of the debt crisis experienced by several developing countries. Remittance flows are also getting uncertain. All these factors make the case for domestic resource mobilisation more important.

Savings and Financial Intermediaries

Savings are closely linked up with the financial intermediaries and their operations. By financial intermediaries, we mean the commercial banks, insurance companies, investment banks and development financing institutions. There are also thefts (Savings bank, Savings and loan associations and credit unions) and pension funds but we, in Bangladesh, are yet to experience the operations of the latter group of financial intermediaries.

Financial intermediaries receive money people save. For example, consumers hold their savings as deposits, insurance policies and financial investment. Financial institutions are not strictly speaking, a separate sector in any economy like home (household sector) workplace (business or enterprise) and government. They are part of the workplace, providing financial services that are essential to production, distribution and consumption of goods and services.

When people increase their savings, that is, reduce their consumption, the money flow to financial institutions in an organised economy increases and the spending on goods and service produced by business declines.

In many developing economies like ours, the administered or quasi-administered interest rates exist. Here the market forces play a secondary importance in interest rate fixation. Under the recently introduced financial sector reforms in Bangladesh, the Bangladesh Bank as the Central Bank has set some categories of interest rate bands within which deposit and lending rates for different categories of deposit and credits are fixed by the Bank for a specified period. This has come to be known as flexible interest rate management. Whatever the mechanism, interest rate has a vital role in influencing the money flow to and out of the financial institutions.

It must be stressed here that we live in a "Money Economy" in modern world. Money can be earned by working, spent now on things we need, saved for future spending or borrowers for immediate use. It is a vital part of our every-day life. (To be concluded)

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Indonesia Cuts Down on Bugs Bunny Abuse

For years, Indonesian businesses have been profiting from the fame of cartoon characters like Snoopy and Bugs Bunny, and well-known brand names like Esprit, without their creators' permission. Until recently it has been difficult for the original companies to stop them from doing it. But as Gemini News Service reports, international pressure and new laws are returning the famous logos to their rightful owners. by Stephen Carr

JAKARTA : In 1987, Snoopy was reunited with his rightful owners, and ever since the custodians of Popeye, Bugs Bunny, Porky the Pig and a host of others have been hoping for an end to their charges' unauthorised Far Eastern ramblings.

For the last 30 years, Indonesia's local entrepreneurs have been enthusiastically decorating their products with famous logos and brand names and registering the marks as their own. If the entrepreneurs were the first in Indonesia to use the names, then it was deemed to be legal.

But the beginning of the end of all this came with the Snoopy decision in which the supreme court decided that the name's owners, United Features Syndicate, had used the name first in Indonesia.

Snoopy and his ilk appear on a huge variety of mass produced items. In a rapidly developing nation of 180 million, that means very big business.

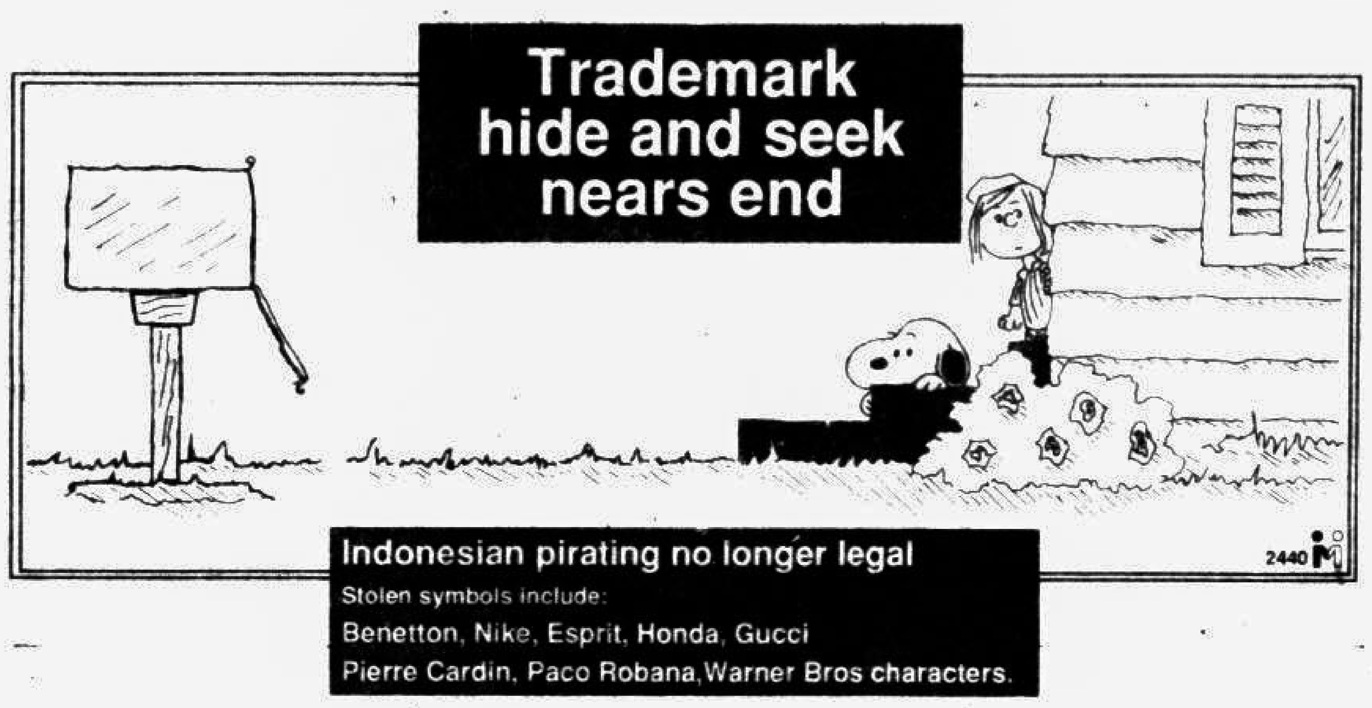
Many foreign firms came to set up shop in Indonesia only to discover their trademarks being legally used by local registrants. Protests did not help so some companies solved the problem by quietly buying back the rights to their own names.

Benetton, the Italian clothes manufacturer, preferred this option to lengthy legal entanglements. Others insisted on their legal claims to their marks and battled through Jakarta's labyrinthine court system.

The case of Gallaher, the British tobacco company and its "Gold Bond" cigarettes in the courts since 1980 and has now moved up to the supreme court for a second appeal.

The Jakarta lawyer acting for Gallaher is confident his client will win, given the change in mindset and the precedents that have already been set. "The Snoopy decision in 1987 was a landmark case," he said.

Warner brothers is currently seeking legal protection for ten of its cartoon stars. The cases will be simpler now that "first use" is no longer an issue with local firms wanting to make money out of Road Runner, Porky the Pig and others.



Indonesian pirating no longer legal
Stolen symbols include:
Benetton, Nike, Esprit, Honda, Gucci
Pierre Cardin, Paco Robana, Warner Bros characters.

Another problem with old restrictions on trademarks was that they only applied to identical products. This meant that local manufacturers were free to take a name like "Honda" and place it on monosodium glutamate, the food flavouring agent. The Japanese car makers have taken the matter to the courts.

Guinness has also been to the courts to deal with a range of products that are not beer, but that carry its name and logo. Nike, the running shoes giant, was another multi-national that spent years establishing the sole use of its name.

Esprit Sports Clothes, an American company, recently won a supreme court battle against a manufacturer of leather goods and bags.

Traders often slightly alter the designs of figures, labels and logos from the originals. The same thing occurs in Thailand where, for example, the designer logo "Benetton" becomes "Benelton." Judges have to sort through stacks of evidence about the precise proportions and characteristics of Bugs Bunny, the mark of Pierre Cardin and Paco Robana.

These disputes in Indonesia will become rarer as marks revert to their original owners. All registrations expire after 10 years and only those belonging to legitimate owners will be renewed. Even if uncontested, renewals by "first users" will be rejected.

Indonesia's adoption of the norms of copyright practice has increased its standing in the international business community. But Indonesia is still on the American government's "watch out" list for unfair trading practices and intellectual property protection.

Owners of pirated computer soft-ware and sound and video tapes must bring criminal prosecutions and involve the police. Pirated sound tapes are much less common than they were a few years ago, after Bob Geldof kicked up an international rumpus about pirated versions of his Band Aid songs.

The legal status of intellectual property in Indonesia is one of the hot items of discussion at the Uraguay round of multilateral trade negotiations under the General Agreement on Tariffs and Trade.

— GEMINI NEWS

Sri Lanka Bounces Back

From an island-state which in recent years came close to being laid low by armed insurgency and communal strife comes a heartening story of economic revival — achieved largely by freeing the industrial environment of excessive controls. by Mallika Wanigasundara

DESPITE the ongoing ethnic war between the government of Sri Lanka and the separatist Liberation Tigers of Tamil Eelam (LTTE), the country's economy has recovered admirably.

For the first time in seven years it has recorded a growth rate of 6.6 per cent, according to the Central Bank report for 1990. Further, after five years the balance of payments showed an overall surplus of 6,998 million rupees (US$175 million).

The budget deficit, a constant worry for successive finance ministers, is also moving downward. In 1989 the deficit, as a proportion of Gross Domestic Product, fell to 11.2 per cent from 15.7 per cent in 1988. In 1990 it dropped to 9.9 per cent.

Over the previous five years the economic growth rate averaged some 2.7 per cent compared with a 6 per cent between 1977 and 1982. The bleak period followed the events of 1983 — communal riots, the escalation of the ethnic conflict in the north and east and the subsequent southern rebellion unleashed by the Janatha Vimukthi Peramuna (JVP).

One of the worst years was 1987, when the JVP mounted a violent and destructive campaign against the government and the people. The growth rate was only 1.5 per cent.

The resilience of the economy, against a backdrop of two rebellions, widespread destruction of property (with damage inflicted by the JVP alone conservatively estimated at 5,000 million rupees) and islandwide disruption of business activities, is attributed by economists to the liberalised open economy promoted by the United National Party (UNP) which has been in power since 1977. In particular, the unshackling of the private sector enables entrepreneurs to play an impressive role in keeping the economy afloat in the dark days.

In the pre-1977 era, private industrialists were very much in the doghouse. The governments of Mrs. Sirima Bandaranaike, which elevated the state to an almost sacred pre-eminence, relegated the private sector to the niggardly role of import-substitution manufacturing.

From 1977 onwards the UNP has dismantled controls and restrictions and has effectively resurrected the private sector as a central engine of economic growth. Per capital income has now climbed to US$418, from around US$320 a few years back.

The contribution of the agricultural sector — including plantations, forestry and fisheries — was outstanding, with a growth rate of 8.8 per cent. Tea came out top with the highest ever output of 233 million kg; a remarkable performance because the tea industry and its executives were among the JVP's prime targets.

With the crushing of the JVP rebellion in 1989 the security situation in the south has stabilised, and both tea and paddy production has recovered well. Tea exports stood at a provisional figure of 216 million kg in 1990, making Sri Lanka the world's largest exporter of tea. India followed with 199 million kg.

In rupee terms on paper, garments and textile exports give the impression that they have earned more. But the garment industry, like tourism, is dependent on a range of imported inputs requiring foreign exchange. In contrast, the foreign exchange brought in by tea exports can be computed as real earnings.

Paddy production suffered a severe setback in 1989 due to the disturbances and drought, but bounced back strongly with an increase in output of 23 per cent and this in turn made possible a 56 per cent drop in rice imports.

Except for the Ceylon Petroleum Corporation, a state-owned high performer, the contribution of industry to the economy came from the private sector. This included manufacturing, processing of agro-commodities and small industries. They contributed 9.4 per cent to growth.

Most state-owned corporations have been performing sluggishly for decades and the government has been trying to "unload" them by a procedure called "peoplisation," a form of privatisation. Significantly, domestic capital formation rose from 8 per cent in 1989 to 33 per cent in 1990.

Yet Sri Lanka is not out of the woods. For most of last year, inflation running at around 21 per cent put severe pressure on the economy. Official figures for the first quarter of 1991 show a decrease to 14 per cent, but consumers continue to complain of high prices of basic foods and materials. Despite pay increases, real wages have fallen.

The Central Bank in its report sounds a stern warning on the dangers of a resurgence of inflationary pressures. Another worrisome problem is unemployment now running at two million. At least 150,000 school-leavers join the labour market every year and only a growing economy, geared to a higher pace, can hope to absorb them all.

The thrust of the present economic strategy is to integrate Sri Lanka's economy with the world economy, not to insulate it. The country has turned its back on the old ideology that saw foreign investment as foreign enslavement. It is inviting overseas industrialists to set up shop both inside the Investment Promotion Zones and elsewhere.

Along with the technical modernisation which it makes possible, new environment is seen as the best stimulus and the best platform for a further leap forward

— *Depthnews Asia*

Cashing in on Antiques Before 1997

WHERE the trade has been in the doldrums elsewhere in the world because of the poor economic climate, the antiques business in Hong Kong appears to be recession-proof.

The recent Chinese art spring auction in Hong Kong organized by 'Christies', the London-based art auctioneers, netted a healthy US$12 million, despite the recession and the Gulf War.

Some art dealers believe the continued buoyancy of the 'Far East' art market is an indication that Hong Kong residents are turning to 'portable' art in advance of the Chinese takeover in 1997.

"Dollars which in normal times went into property investments or the stock market are now being invested in art," said one dealer.

But there is little evidence of any downturn in the property or stock market turnover to bear this out.

And many of the top prices for antique artefacts are being paid by some of Hong Kong's richest businessmen who maintain substantial assets in the colony while doing business with China.

It is unlikely that these top buyers are planning "flee" Hong Kong with their money in antiques.

More likely, according to other antique dealers, buyers are investing in antiques and getting them out of Hong Kong before the export of such artefacts stops altogether.

China has since 1982 prohibited the export from the mainland of pre-1795 antiques (Qing dynasty and earlier) and dealers and buyers alike are worried that the ban will extend to Hong Kong when it reverts to Chinese rule in 1997.

Extending the restrictions to Hong Kong would mean overseas collectors would not be able to take antiques out of Hong Kong and local dealers would not be able to sell pieces abroad after 1997.

"I think many collectors would want to play is safe and send their collections out of Hong Kong before 1997," said Julian Thompson of Sotheby's, another London-based auction house.

Almost 90 per cent of Sotheby's Far Eastern sales are pre-1795 antiques obtained from collectors in Hong Kong and overseas.

Antique collectors and dealers have reason to be worried.

when the communists came to power in mainland China in 1949, one of the first sectors to be nationalised was the antiques trade. Stocks were confiscated and the artefacts "sold" to the state at knock-down prices. Many of these artefacts were destroyed or simply disappeared during the Cultural Revolution.

Dealers are so convinced that China would clamp down on Hong Kong's antiques trade that major auction houses last year sent a letter to the drafting committee of Hong Kong's post 1997 mini-constitution asking that antiques and works of art be included in the sections on free trade.

But the Chinese authorities have so far only acknowledged their concerns.

"The value of a collection is very dependent on being able to sell it on the world market and if it is not exportable from Hong Kong, the collector would no longer have access to that market," said Thompson.

The issue is a controversial one. Many Third World countries see the need to protect their cultural relics from marauding foreigners.

But dealers claim Hong Kong is different. The major buyers of Chinese art are overseas Chinese, particularly Hong Kong, Taiwanese and other Chinese scattered about the globe.

Hong Kong buyers account for over 40 per cent of sales of Chinese paintings, Taiwanese buyers snap up another 30 per cent. Only 25 to 30 per cent goes to Western buyers and a small proportion to Japanese. Hong Kong buyers are also the main collectors of antique Chinese porcelain.

"This is not a case of Western imperialists looting the museums. This is more a case of Chinese abroad appreciation their own cultural heritage and if they have the money, of buying it," said one dealer.

But he did acknowledge that many antique pieces that find their way into Hong Kong are looted from sites in China by unscrupulous mainland robbers.

The security department of China's state relic administration has estimated that cultural artefacts accounted for most of the goods taken illegally from the mainland to Hong Kong.

In the last 10 years, more than 70,000 pieces have been intercepted by Chinese officials before they could be smuggled to Hong Kong. Hong Kong customs has seized almost 5,000 pieces.

Although smuggling cultural artefacts carries the death penalty in China, the number of pieces finding their way into the Hong Kong market indicates that the law is rarely enforced and is probably unenforceable.

In February, the official party organ, the "People's Daily', reported a resurgence of grave robberies in the last two years despite a major crackdown that began in 1987.

You Don't Say Whoa in a Mud Puddle

The prairie province of Saskatchewan is known for its hearty perseverance and country-style warmth, but to many Canadians, it is also the "middle of nowhere". Since Europeans settled the land last century, its main source of income has become the world-wide sale of grain. Now that grain prices have fallen below the cost of production, reports Gemini News, rural people are faced with finding a new income for their fading communities. by Gillian Forrester

PEOPLE in the Canadian province of Saskatchewan never give up. For years Saskatchewan has had one of the worst football teams in Canada — and the most dedicated fans.

While the team has always been on the verge of financial collapse, now the whole population is facing a do-or-die challenge. The province, famed for its golden wheat, is being forced to find new sources of income in the face of changing world grain markets.

From the air, the land is an immense patchwork of perfectly fitting rectangles of wheat, oats, barley, and flax stretching as far as the eye can see. Hopeful farmers seed when the winter snow has melted and the ground is dry enough to take the massive tractors and implements they pull.

Saskatchewan, in the heart of Canada's flatlands, has one million people in an area twice the size of Britain. The name is a native North American word meaning "fast-running river".

In the northern half are rivers, lakes and thick forests. But in the south, where almost all the province's people live, families use the dry, treeless land for farming.

There is a farm home every few miles, in a yard bordered by trees typically planted by the parents or grandparents of the farmer who lives there now.

In the winter, the trees provide shelter from winds that whip the snow about and make the biting minus 25 degree air even colder. In summer, they provide shade from the beating sun.

A tall orange or brown grain elevator with the name of a small town printed boldly on its side pops up every 20 miles or so. But the towns themselves are losing their boldness. Young people are leaving, main street is getting quieter, shops are struggling and some are closing.

Among communities with names like Elbow, Eyebrow, and Moose Jaw, there is even a town named Tiny, which now has only two residents.

Small town Saskatchewan is dying and the prairie folk are not sure which way to turn. Those who stay are faced with a transition as painful, some have said, as that of the industrial revolution.

Small towns grew up around the farm community, beginning in the mid 1800s when the area was being settled by Europeans. A strong farm economy meant lots of business for local towns.

But the politics of international subsidies and a recent drought have put agriculture in a precarious state. Without government help, farmers would have lost money on every crop in the last six years. Most small towns have little to fall back on.

The issue of reducing agricultural tariffs under the General Agreement on Tariffs and Trade (GATT) is still far from being resolved. Canada is pressing to have tariffs on grain eliminated worldwide.

Says Grant Devine, premier of the province : "Our farmers can compete with any others in the world ... but the treasury of Saskatchewan cannot compete with the treasuries of Western Europe and the US."

Perseverance is a cultivated trait in a region where a year's work can be destroyed by two minutes of hail. But now, creativity is needed more than perseverance.

Some rural folk have begun marketing traditional homemade jams and some of grandma's favourite recipes. Provincial government programmes have resulted in new businesses and production plants breathing life into a few towns. New projects are generally cheered on like the football team. Many people, however, question the feasibility of businesses located "in the middle of nowhere".

After the disastrous desert-like droughts in the "Dirty Thirties", Saskatchewan rose to call itself "the bread basket of the world" in the Sixties.

Modern irrigation helped crops grow during the drought of the Eighties, but many farmers left the land, bankrupt. The government supplements the income of farmers when prices are low, but often it is not enough to cover debt payments.

The aid packages, partly funded by the federal government, anger many Canadians.

Even in Saskatchewan city people make jokes about farmers standing around waiting for government handouts. Many farmers feel misunderstood and unappreciated, their livelihoods riding on a game they cannot seem to win.

The last few years have seen the creation of support groups to help struggling farm families, and to help farmers realise that they are not to blame for their problems. Many take jobs in nearby towns in the winter.