

## Feature

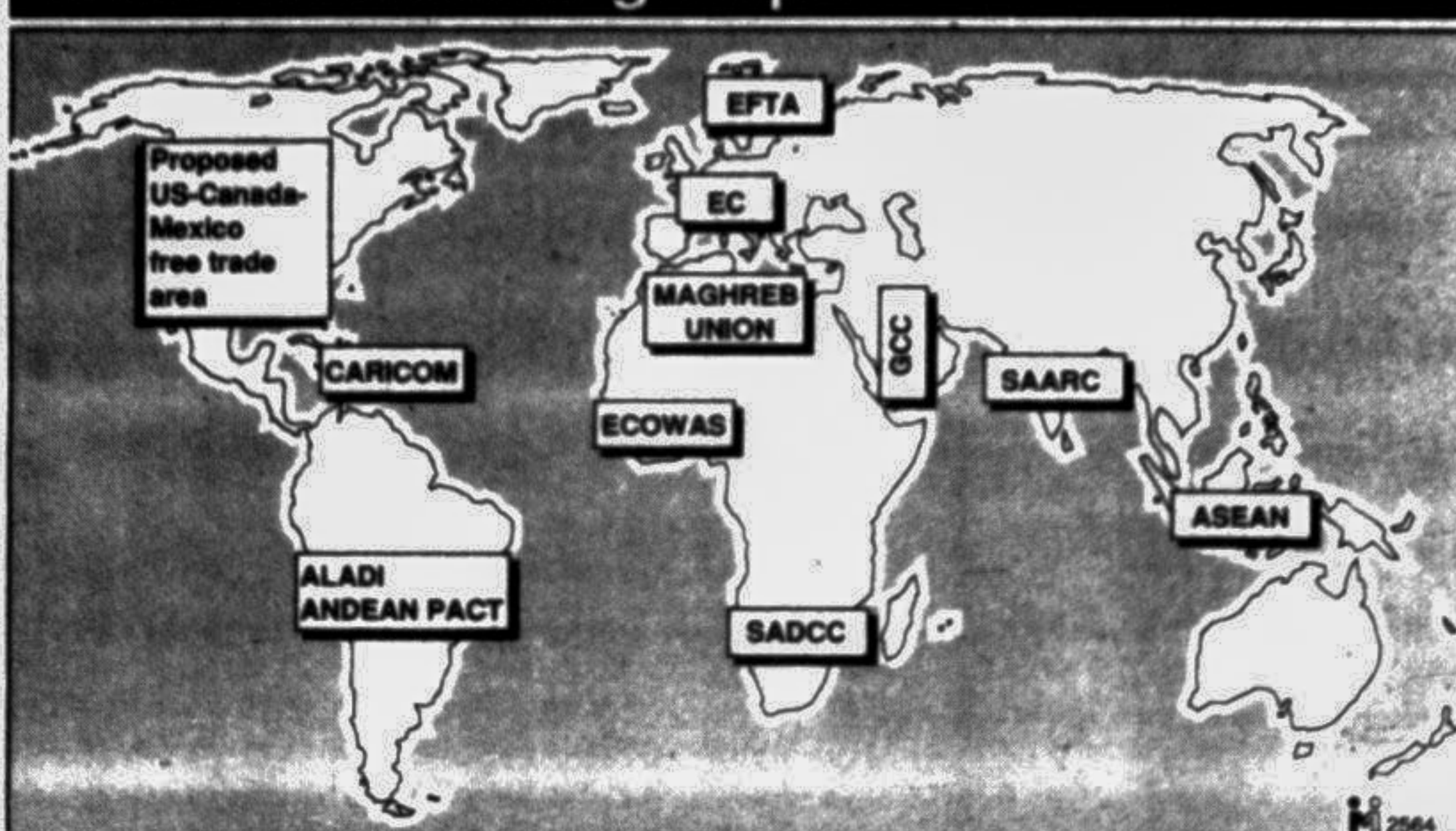
## Banking and Finance

## Bush Fears Free Trade Pact Issue in Election

Kevin J Kelley writes from Washington

After its trade agreement with Canada, the US is now negotiating a free-trade pact with Mexico. It would create a common market of 360 million people with worldwide implications. Some US groups including the Democratic Party, oppose the pact, fearing many US jobs will be lost to low-wage Mexican labour. Gemini News Service reports on a deal with domestic implications in US election year.

## World economic groups



## What they stand for

Caribbean Community, Latin American Integration Association, European Free Trade Area, European Community, Economic Community of West African States, Southern Africa Development Co-ordination Conference, Gulf Co-operation Council, South Asian Association of Regional Co-operation, Association of South East Asian Nations.

poses a US-Mexico free-trade agreement. Its stance mainly reflects the political influence

of the trade union movement, which fears many jobs will be lost in the US as manufactur-

ers are lured south of the border by low-wage Mexican labour.

US environmental groups are also trying to block the deal. They argue that pollution problems in the 1,550-mile US-Mexico border region will worsen considerably if agreement is reached. Mexico has much more lenient environmental laws and far less anti-pollution technology than the US, these lobbyists note, pointing to the water and atmospheric contamination already being caused in California and Texas by factories a few miles inside Mexico.

Many of these assembly plants, known as maquiladoras, have been built by US companies. Hundreds more, with equally poor pollution controls, will be constructed once free trade goes into effect, the environmentalists warn.

Consumer advocates have joined the campaign to defeat the agreement. They say food imports from Mexico are likely to contain dangerous additives and pesticide residues.

will threaten to relocate to Mexico unless they are given exemptions from US job-safety and environmental regulations.

Some political forces in Mexico are also trying to stop free trade. Left-wing opponents of the Salinas government maintain that Mexico has little to gain from such an agreement, since it already sends 70 per cent of its exports to the US. Few jobs will be created for Mexican workers as a result of free trade, say these groups.

But Salinas appears to have broad support within his country for lowering tariff barriers between Mexico and the US. A recent Los Angeles Times poll found 61 per cent of surveyed Mexicans favour free trade with the US, while only 15 per cent are against it. That approval was expressed despite fears on the part of half the poll respondents that a treaty would lead to greater US domination.

Within the US, many farm, banking and export-oriented business ardently favour a pact with Mexico. The 88 million Mexicans are seen as comprising a potentially lucrative market for US finished goods, food grains and high-technology. Mexico's abundant oil and gas supplies also act as a major incentive for successful talks.

At the same time, however, several US makers are insisting that any treaty must contain safeguards against Mexico becoming a "trampoline" from which Asian exports can be catapulted across the border. US car makers, in particu-

lar, want a provision in the agreement requiring that a car imported from Mexico be built largely from parts of North American origin. The fear is that Japanese and Korean auto firms will try to circumvent US tariffs by shipping parts to Mexico for assembly and eventual export to the US.

One most powerful claim made by US free-trade advocates is that an agreement with Mexico will discourage illegal emigration across the Rio Grande because a trade treaty will touch off an economic boom in the border.

Third World immigration, particularly from Mexico, has emerged as a potent political issue in this year's US election campaign.

Perhaps the biggest overall obstacle to a free-trade agreement is the fact that the US and Mexican economies are at a vastly different stages of development.

The average Mexican worker earns roughly 10 per cent of what a typical US worker is paid. And despite Mexico's geographical status as a part of North America, most people in the US feel they have little in common culturally with their neighbours to the south.

For many reasons, then, it now appears that a free-trade agreement will not be reached in the next few months. And that could become a problem in itself, since Bush and other Republican treaty proponents would prefer that the Democrats could not use a pending pact as an election issue.

(Kevin J Kelley is a American journalist and editor of Towards Freedom Journal.)

## Pakistan State Bank Spots System's Flaws

by Babar Ayaz

ONCE again the State Bank of Pakistan's annual report boldly pinpointed the structural defects of the country's economy and suggested far-reaching reforms. This, in spite of unwarranted meddling of the Ministry of Finance which seemingly has delayed its publication.

And once again the policy-makers will sacrifice it at the altar of short-term gains and political opportunism. At least this has been the practice in the past.

The fact the newly inducted government is going at a whirlwind speed on its programme of denationalisation and privatisation alone is not enough to prove that they would be able to undertake the less popular reform package as suggested by the State Bank, the institution which monitors the economy with whatever autonomy left with it.

To duck the major reforms recommended by the State Bank of Pakistan economists, the government has also a better excuse that they could not help but rely on heavy borrowing because the external input line got choked and the oil bill went up substantially.

Since the last many years the SBP report has been lamenting over low national and domestic saving rates. It suggested various changes in the existing policies to raise their level, but without any desirable results.

Though the level of savings and investments improved during 1989-90 over the pre-

## Corporate, public and government sectors use household savings to finance operations

ceding year, "their level as percentage of GNP is roughly the same as in 1987-88 and considerably lower than it was in 1986-87." The major contributor to national savings is the household sector which provides 92.9 per cent of the total.

"The share of both the private savings and household savings," the SBP report admits, "has broadly shown a rising trend indicating that the share of public savings and corporate savings has been declining."

The SBP observes quite boldly: "It is paradoxical that the share of corporate saving in the national savings should

be so small despite the fact that over the years the corporate sector has had the privilege of making use of all sorts of facilities and incentives.

"Similarly, although the public sector has been expanding investment, its savings are meagre compared with the scale of investment in the public sector. Both the corporate

and public sectors and the government have used the household savings to finance their operations."

While the share of corporate and public sectors was lowest at 8 per cent, their contribution in employment generation is low and so does their share in exports and growth in the manufacturing sector.

The new government is also pampering the same class. All policies are directed to help the big money grow. But there is little emphasis on incentives to the small-scale industry which has sustained growth in

spite of little support from the government and the banks.

What is required as the SBP reports suggested is "greater emphasis on small-scale industry and shift of balance in favour of labour intensive areas of production in large-scale industry."

To boost the national savings it is important to correct the distortions in the rate of return, which will become more glaring now as the inflation has crossed the one digit mark and is said to be around 15 per cent.

Such a high rate of inflation would turn almost all banking sector savings rates into negative rates, which might affect the household savings adversely. It is all the more necessary to address this problem immediately as even, according to the SBP, "the prospects of foreign assistance in the near future are clouded" and the government is forced to talk about "self-reliance."

This self-reliance affects the growing lower classes in Pakistan where, according to the SBP report, some people live "on about US \$1 per person per day," or actually have a lower standard of living. —Depthnews Asia.

## Plight of Morals and Materials in Banking

by Shaj

THE Banking edifice is based on the structure of human materials called the bankers. Bankers' pride, power and privilege were once, as secured as their vaults. They, in fact, wielded respect and trust of all in the society. By all standard, bankers were, then, considered to be the nicest and smartest human elements serving their customers and thereby the society. One was to be amazed and moved with the effervescent behaviour-pattern and operational efficiency of the bankers.

But alas! all that was gradually eclipsed with the sun rising in the Eastern Horizon. The Monster grabbed the entire society with its sharp claws. An ominous star travelled through the peaceful and flourishing domain of all sectors of life-public as well as private. So it happened with the banking sector as well. Bankers began to be mired with swarm of controversies and their integrity was being questioned. People who once accorded them blind trust began to raise their eye-brow in the name of banks and bankers. But, why?

The reasons are not far to seek. Moral degradation is the cause and that too is the cumulative effect of some other factors arising out of socio-political-economic scenario of the society. Plato said, "The state does not originate from an oak or a rock; but from the character of people who dwell in it." The character is nothing but the sense of values in life. Now if these values of life are lost, the character is lost. In a society of lost character, everything is lost.

The sequence of facts over the past two decades presents a dismal look. Though it is most unfortunate for the nation, it is a fact that the character of the nation has

been lost to a great extent. This, in turn, has had its alarming adverse effects on all aspects of life, and the banking is no exception.

From the early '50s, with the growth of banking in the eastern wing of Pakistan, people were, by a large, feverish for this industry to be sponsored by the financial wizards of West Pakistan.

But the fact remained that 90% of the employees were the sons of the soil. Many local educated boys were shaping well with the progressive growth of such banks, yet many others were disgruntled

to ominous indiscipline. The wind of indiscipline, soon turned into a storm of unrest with the induction of politics into banking.

The new entrants recruited on considerations other than professional did not imbibe them with the banking spirit. Nor were they inclined to receive proper training in their respective jobs. Most of them preferred to swim with the tide and the time. Thus, emerged a bizarre situation in the banking arena, which, in turn, gave rise to greed for material possession and prosperity.

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and discarded. They had been fostering hatred and contempt against the management. This had its manifestation immediately after the country was made free from the yoke of the West Pakistani rule.

With the emergence of Bangladesh as an independent sovereign state, a few hundred branches of Karachi-based banks, had also severed their all links with their Head Offices. Their assets and liabilities turned to be the assets and liabilities of Bangladesh.

But the disgruntled elements in banking sector continued to consider these banks to be the proteges of their counterparts in Pakistan. They could not, therefore, shake off their psychological barrier and treat these banks as the national assets of Bangladesh. This ill feeling spurred by the socio-political anomaly, lack of accountability and above all unscrupulous activities gave rise

In the process, the lone causality was the honesty which was so carefully being fostered and hitherto being held atop. It is needless to mention that banking is woven with the high quality fabrics called honesty. Once it cracks, it crumbles. With the breach of moral fibre, the disease assumed a contagious one. There was, thus, the unbridled growth of indiscipline, chaos and confusion. Persons who once carried the symbol of pride and prestige became the silent spectators of the mad race for highflying life style. Others were saddled with undue pleasure and prosperity.

The situation at one point of time came to such a pass that to miss the bus was considered to be the stupidity. Incidents of cash-defalcation, fraudulent withdrawal of cash from dormant accounts, non-deposit of cash to depositors' account, fraudulent use of import, ex-

port licences of non-local deserters, so and so forth became the peculiar phenomenon, although these were beyond anybody's comprehension during the good old days of banking.

This was how, the self-seekers were destroying the national wealth, resources and the institutions at a time when it was imperative for all to rise to the occasion and reap the maximum benefit of the nationalisation. Rather most of them lost their interest in the profession in-as-much-as incentives in cash and kind were discontinued. Commercial banks were, in fact, converted into Government departments with all vices and virtues.

Incidentally, to combat the menace there was no competent machinery in these institutions. As a matter of fact, the central management of all these banks was based in Karachi, only a liaison office called Zonal Office was there in Dhaka. The Zonal Management, with the exodus of non-local senior bankers, could not accommodate the proliferation in the industry and cope with the gigantic requirement as emerged with the emergence of the new state. This resulted in poor management and sluggish activity in banking arena, which, in turn, adversely effected banking in particular and economy in general.

Even after two decades, banks and bankers are beset with multiple problems arising out of legacy of the past anomaly. To overcome the morass bankers need to be absolutely professionals, customers perfect in their dealings and the authority watchful and effective. In other words, it is the corporate responsibility of all who matter, to ensure that moss does not gather on this prestigious edifice.

## Extraordinary Events Stir Grains Market

by Ian Steele

A series of unrelated but traumatic events have pushed world cereal prices sharply higher.

The price of rice rose from US\$303 to US\$315 a ton in July. This is US\$50 a ton more than its price at the same time in 1990. Hard winter wheat was up US\$3 a ton, maize US\$7 and sorghum US\$9.

Natural disasters, poor weather conditions and political uncertainties have caused the UN Food and Agriculture Organisation (FAO) to revise its forecasts for wheat and rice harvests downward.

The FAO suggests that global food stocks could fall below the minimum levels needed to safeguard food security in 1991-92.

It warns of millions of people in Sub-Saharan Africa threatened by famine. The FAO says that only a massive international relief effort can prevent widespread suffering and loss of life in the months ahead, especially in Ethiopia, Somalia and the Sudan.

There are high spots on the production charts in parts of Asia, in Europe and in Canada. There is a record wheat crop forecast for India, Iran and Pakistan.

But the early performance of the southwest monsoon in Asia has been erratic-ranging from drought in Indonesia and Malaysia to severe flooding in China.

Floods in Mongolia and an earthquake in Afghanistan have

worsened unstable farming conditions. There is uncertainty as to the ultimate size of harvests in China and the Soviet Union.

The forecast for Asia's rice crop has been lowered, following heavy rains and severe flooding in China and Taiwan, an April cyclone in Bangladesh, the eruption of Mount Pinatubo in the Philippines and drought in Indonesia and Malaysia.

Outputs in Cambodia, Burma, Pakistan and Thailand are forecast to increase however, if normal weather conditions continue through the present growing season.

In the United States' corn belt, drought has lowered expectations for maize.

Unfavourable growing conditions for cereals and pulses are reported from parts of a crumbling Soviet Union.

The extraordinary events which continue to unfold in the Soviet Union have increased concern for an effective harvest. But there are as yet no new projections on the ultimate scale of the cereal imports which will be necessary.

Coarse grain purchases in the Soviet Union are expected to be 16 million tonnes—four million tonnes more last year. But it will depend on the harvest of crops already in the ground, the level of state procurement, the organisation of internal distribution and the availability of external credit to pay for imports.

Coarse grain purchases will also depend on weather conditions during the harvest when serious problems are expected as a result of shortages of machinery, spare parts and fuel. Prior to the coup attempt and the decision by several of the republics to declare their independence, the central government was committed to the deployment of military personnel and vehicles to help with the harvest, together with priority fuel supplies for rural areas.

Special incentives were also being delivered to farmers in

the hope that they would deliver grain and oil-seed in excess of state procurement quotas. The output of wheat and coarse grains this year was projected—prior to the coup attempt—to be down by 17 per cent and 16 per cent, respectively.

In Iraq, large sections of the population face acute food shortages and massive starvation is a distinct possibility. A United Nations mission to Iraq in June-July reported widespread malnutrition and food prices beyond the reach of most people.

Wheat and rice is trading in Iraq at levels 48 and 22 times their respective levels a year ago. Domestic food production this year is just one-third of last year's level and government food rations have been cut by two-thirds.

In the prosperous past, Iraq imported several million workers from Asia to cope with manpower shortages. But the country now has growing unemployment among its own population.

The UN mission estimated that to maintain Iraq's pre-war food intake in 1991-92 would cost some US\$2.6 billion if the international community approves the sale of Iraqi oil on the world market to finance purchases. —Depthnews Asia.



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