Foreign Investment is Still a Mirage

by M Shamsul Haque

THE democratically elected government of BNP has announced its Industrial Policy 1991 and included foreign investment as an important element (Chapter XII). In order to attract foreign investment the policy perhaps has offered more facilities within the framework of the 1980 Foreign Private Investment (Promotion & Protection) Act of the then BNP government of President Zia. The main provisions of this Act are :

a) ensuring equal treatment in all respects for local and foreign investment;

b) protection of foreign investment from nationalisation;

c) ensuring repatriation of proceeds from sale of shares and profits and protection of intellectual property rights.

A new but interesting clause has been included for investment in portfolios of shares in the stock exchange.

The past autocratic regime undertook a lot of publicity stunt for the purpose of attracting foreign investment in Bangladesh. It arranged the so-called "investors forum" at Dhaka and abroad, expensive foreign tours by top bureaucrats and their business cronies and also finance costly media blitzes in foreign press such as the supplement in The Financial Times of London. Some of these efforts were funded by donor agencies like UNDP/UNIDO, ADB, etc which in a way lent some credibility to the actions by the then government. While such costly publicity stunts were being carried out, some serious investigations were also undertaken by International Finance Company (IFC) in 1987 and GTZ (German Technical Cooperation Agency) and by others as well. On the one hand, these studies expressed strong reservations about the possibility of foreign investment in Bangladesh and on the other, they also raised questions on the genuineness of the government's intention to bring substantial changes in the economic environment e.g., the privatisation policy.

Foreign investment in Bangladesh

According to Bangladesh Bank, firms/companies are placed in the following Categories:

I) Firms/companies incorporated or registered abroad but functioning in Bangladesh (Category-1).

II) Firms/companies incorporated in Bangladesh having foreign equity participation (Category-2). The total number of operating companies in Bangladesh was put at 98 (47 in Category-1 and 51 in Category-2). A further breakdown is made between direct investment and portfolio investment on the basis of a 25% of investment criteria. That is, where the size of voting stock held by foreigners exceed 25% or more, the firm is treated as a direct investment; otherwise it is treated as a portfolio investment. Statistics are also presented on the economic grouping, country and region of origin of investing firm. Primarily based on this source and some other data from the Department of Industries a study by two DU Professors presented the following table in a book named "Bangladesh in South Asia and ASEAN" (Sadrel Reza and Hafiz Siddiqi). It is reproduced here to provide a comparative dynamics of the issue at hand.

Table 1: Sector-wise distribution of joint-venture collaboration in Bangladesh.

Comparing the total number of firms in the table with the number quoted it may be noted that during 1983 and 1988 there was no change in the number of firms with foreign investment. There has been some additions of foreign banks, garment factories and trading houses, but that was counterbalanced by closures in some other sectors, pharmaceuticals mostly. There might have been a few more addition to that list in 1989 and 1990 in the garments, electronics and sports goods sectors and located in the EPZ. In terms of the size of investment those are rather insignificant. The fact that all those efforts by the previous government failed to attract foreign investment is more clearly shown in the following table.

Table-2: Flow of net foreign investment into Bangladesh.

It may be observed that after 1984, the second year of military rule by Ershad, investment in capital equipment by foreing firms had completely dried up and it remained so during the rest of his regime despite all those promises of legal and financial havens. Most of the investments were made out of retained profits to finance working capital needs in the face of high cost of bank loan in Bangladesh. Details in this table also showed that re-invested earnings came mainly from the commerce group of firms engaged in trading, banking and insurance. One of the main purpose of getting foreign investment is to obtain transfer of technology to expand the base of production of goods in a country like Bangladesh. It seems that the goal was not at all realised by the reinvestment of earnings in working capital. Further, the small amounts of investment came mostly from the USA and Western Europe, perhaps as a legacy of their past investment during the British and Pakistani rule mostly in tea gardens and processing, trading and banking concerns. Japanese investment was very small considering the outward looking strategy followed by them and the huge trade surplus of Japan during these years. Japan was also targeted by the erstwhile regime specially in its campaign for foreign investment.

Inside view of a modern garment industry

Other than expanding and modernising the productive capacity through foreign investment which is expected to narrow the foreign trade deficit in the long-term, net inflow of foreign private capital can help meet balance of payment shortages in the short-term. The picture of foreign investment strike may become more clear when some more statistic are presented from the balance payment statistics of Bangladesh. Total amount of foreign fund received as long-term capital (net during 1983-1990 was a meagre $16.3 million, whereas there was outflow of short-term capital (net) of $565 (-) million during the same period. In 1981 alone, Bangladesh received $40.1 million in the first category and $28.1 (+) in the second category mentioned above.

Those who are aware of the way these multinationals operate, can guess how much was transferred by these entities during Ershad's regime of development. It is amply clear that during the rule by the autocratic regime it might have been possible to hoodwink ordinary Bangladeshis by drumming up those publicity binges with government and donor funds. Foreign investors having access to real information about the economy and the government kept themselves clearly off the coast of Bangladesh and invested their funds in places which were offering highest rates of returns for the level of risks undertaken. In these days such information depicting real conditions rather than misinformation usually provided by government media in Bangladesh are obtained by various channels, mostly by studies undertaken by various international agencies.

In the following section we would like to present the findings and conclusions of a major study by IFC and another by GTZ to bring home the point as to why foreign investors shied away from Bangladesh along with their local counterparts. It should be mentioned that these studies were not published because having agreed to conduct these studies the government and its bureaucracy were not willing to accept their findings and conclusions since it was not going to serve their purposes in any way. But information is made available to those who seek it. And investors, be they foreign or local, are one groups who are known to make decisions based on available information less concerned with the past but more pertinent to the future. A poor nation with a begging bowl in hand can hardly be a source of attraction for investors who want their money back with a sufficiently high return. And a government which was unable to raise funds to meet its rising non-development revenue expenditure can be hardly relied upon for substantive policy changes affecting operation of the real economy.

Bangladesh no place for investment

The IFC is an agency of the World Bank and its main activities are to increase private sector investment in member countries through projects as well as technical assistance. In the unpublished study on the role and scope of foreign investment it identified the following as restricting factors:

— limited investment attraction because of few natural resources; low standards of schools and hospitals; a machineless society and shortage of skilled workers and managers.

— domestic market limitations; very low per capita income; lack of purchasing power of the majority of the population; domination of the public sector.

— production base for exports not attractive: geographically inconvenient locational, congested ports and far away from the main shipping lines; low level of infrastructural development; hostile policies in the past.

— political and legal environment not satisfactory: political instability; weak law and order situation; complicated and undeveloped legal system; undeveloped capital markets and above all poor image of a country frequented by natural disasters, hunger, malnutrition and violence in campuses etc.

In 1989 GTZ finance a project initiated by the Planning Commission to study the scope and role of a Private Sector Unit (PSU) as a thinktank for expansion of the private sector in Bangladesh. A delegation of scholars from Germany visited Bangladesh and this writer have had the privilege of working as the counterpart of the team leader Prof. Osker Gans of Hydelberg University. Among other things, that report was too critical of the "rent seeking" structure in the economy and observed a very weak and corrupt administration and legal system. Economic policies were found to be effectively biased against the agricultural sector as well as export expansion. Very low investment was made in human resource development particularly the supply of skilled workers and trained managers were inadequate. Trade unions were found to be misguided and hostile towards policy changes. And government functionaries were not serious about implementing policy changes.

As already mentioned foreigners knew all along that there was no "new information" in those campaigns for foreign investment hence they behaved rationally by not responding to those incentives. For international investors such new information was pouring at their door steps from many other places with far better prospects. For example, with the prospect of the emergence of a single market in the Europian Community "Britain is now the multinationals' favourite location in Europe" and OECD (developed) economies were investing in other OECD countries (The Independent, Feb 10, 1991). Britain accounted for an extra-ordinary 39% of the total investment in EC of $127 bn a year in 1987 and 1988. More recently the collapse of the highly bureaucratic and socialistic states in Eastern Europe and the former USSR have opened up vast, opportunities for foreign investment in these countries for various well-known factors. Nearer home the ASEAN has been attracting foreign investment at an increasing rate. Even the war ravaged Vietnam is being identified for faster rate of economic growth because of cheap but skilled manpower and a stable political condition. Facts like these are really discouraging for obtaining foreign investment in Bangladesh which presently has very little to offer as genuine incentives. But then we also must make a start as soon as possible to change those conditions which actually resulted in very little inflow of funds in the past. Some of the substantive elements of changing the environment are listed below.

What favourable climate?

Certainly the transition to a democratic government without violence is a positive development and the declared policy of adopting a competitive market economy including foreign investment are "new information" for investors. However, the legacy of the past will continue to frustrate implementation of policies to bring financial discipline and reduce the dominant role of the public sector. But the government must get out of running economic activities and avoid its distortionary effect which give bad signals to investors — foreign as well as local. Instead it should put its efforts in expanding the social sector such as human resource development through education and health.

For the time being, perhaps during the tenure of this parliament the government is left with no alternative but to use our national resources, human as well as financial, to create the base for a self sustaining growth. A few institutions like the Grameen Bank, small manual irrigation technology like the treadle pump and mechanised country boats, export of garments and marine products and above all the hard working Bangladeshis employed abroad have begun to draw international attention to the potentials of economic development of Bangladesh. Achievements like these should be consolidated, encouraged and focused abroad to improve the image of the nation.

(The writer is serving as Professor of Finance in the Institute of Business Administration, Dhaka University)

Table-1 : Sector-wise distribution of joint-venture collaboration in Bangladesh.

	Sectors	Number of firms Prior to 1972.	Between 1972-82.	Total
1.	Deep-sea fishing and marine food processing.	2	16	18
2.	Chamical and pharmas.	9	8	17
3.	Ready-made garments	-	15	15
4.	Electric engineering	4	8	12
5.	Petrochemicals	6	-	6
6.	Leather and leather goods	-	6	6
7.	Mechanical engineering	1	4	5
8.	Furniture	-	3	3
9.	Banking	-	2	2
10.	Others	4	11	15
	Total:	26	73	99

Table-2 : Flow of net foreign investment into Bangladesh.

	Tk. in lakh	1982	83	84	85	86	87	88
A	Cash brought in	149	213	108	883	1082	1075	268
B	Equipment brought	9	257	232	37	-	7	1
C	Re-invested earnings	856	252	685	1573	793	2238	2557
	Total :	1024	722	808	2493	1875	3320	2826

For whom Pharaohs' Time Stand Still

AS sure as the setting sun will turn dozens of smokestacks into benign fingers against Lahore's fiery horizon. Each evening will find Robin Mahsi up to his knees in a pit of wet clay, stomping mud for the thousand bricks he has to make the next day.

"For us, it is still the time of the Pharaohs," says Mahsi, who has just finished his night's work. "Here, it is the 20th century and still we are not free."

Mahsi is one of some 500,000 Pakistani brickmakers, many of whom, despite a supreme court decision outlawing bonded servitude, are trapped by debts owed to kilnowners.

Mahsi is trudging along a street of hardened mud cubicles, down the hill from one of the many belching smokestacks on Lahore's outskirts. These boxes house his family and a dozen others that make bricks for a kilnowner on 6.4 hectares of farmland.

The next dawn, they will begin scooping the clay mud into wooden forms. Mahsi, his wife and some of his eight children will fashion bricks with a few quick pats, then plop down the resulting rectangles into near rows to dry in the hot sun.

Later, a labour boss will come around to count the row. He will pay 3.80 dollars for the 1,000 bricks the family averages, then turn around and sell them for about 34 dollars.

"The digging of the earth is the hardest part," says 40-year-old Mahsi. "You must have a lot of energy. This dirt is like steel to break through."

Mahsi owes 295 dollars to the owner of the brick kiln, a local politician named Mohammed Aslam. Until he pays it back, he cannot leave.

The kilnowner's son, Mohammed Aktar, who oversees the operation says, "If they work, they can pay off their advances, it's not a bonded system. We don't force any man to work here. If they want to work, they can. If they don't want to, they can go."

Indeed it can be a matter of perspective. From Aktar's standpoint his workers are not slaves by any definition. Working though a "Jamidar" or labour boss, he pays the going piece rate and simply doles out the occasional loan or advance for a doctor's bill, a wedding or a funeral.

"For us, it is still the time of the Pharaohs," says Mashi

"If a family can make 15,000 bricks a week, we will give them more of an advance", he says. It has always been this way.

But human rights lawyers talk of an insidious system in which a cycle of debt and interest can pass from generation to generation.

According to estimates, 700,000 to two million Pakistanis are caught in the system, including carpet weavers, shipbuilders and construction gang workers, and most of them are children.

Mahsi had borrowed 295 dollars from the owner of the kiln where he had worked previously. Somehow that figure rose to 632 dollars. Then he went to work for Aktar, who "bought" him, in the industry jargon, by paying off the debt.

Mahsi believes he has repaid all of it. But the jamidar, who is ultimately responsible to the kilnowner for the debts, says Mahsi still owes 295 dollars. Other workers tell similar stories. Mahsi tells of a jamidar who was owed 1,687 dollars. When he died, his debtors were passed on to one of his relatives who was appointed jamidar.

A 1988 supreme court decision banned the jamidar system outright and strictly limited loans to a week's wages, to be repaid before any further advances.

But, protected by powerful owners, the system remains intact. Hundreds of thousands of workers are virtually imprisoned by the trade. There were 2,455 brick kilns in Pakistan in 1980, the last time they were counted, and many owners like Aktar, are politically connected or are politicians themselves.

The labour minister, Ijaz-Ul-Haq, pushed legislation through the senate in late November that would outlaw the advances altogether.

In January, it will go before the nation assembly. Haq acknowledges that the economic system underlying the industry makes it all but impossible to legislate out of existence.

There have been grassroot attempts to undo the system. The workers have formed unions. A Swedish-funded organisation called human rights now has established primary schools at 33 of the kilns, each of which educate 20 to 60 children.

"The schools are the beginning of a change", says human rights lawyer Asma Jehangir, "awareness can change the human race," Jehangir says. "The children's faces look more intelligent now, you should have seen them when we first went to them." — (IPS)

Trade Links Warm Moscow-Pretoria Ties

The Pretoria government long regarded the Soviet Union as a hotbed to Communism and a dangerous influence on South African politics. It was especially concerned about Soviet relations with the African National Congress. But winds of change and economic necessity in both the Soviet Union and South Africa have altered many old ideas. Full diplomatic relations may still be some way off, but as Gemini News Service reports, trade between the two countries, particularly in diamonds, is picking up. By KEITH SOMERVILLE

Barely 18 months ago it would have been inconceivable for a South African minister to speak of the Soviet Union in any but the most suspicious, even hostile terms. Now Foreign Minister Pik Botha is openly hailing the possibility that within months South Africa and the Soviet Union could have diplomatic relations.

This turnaround has taken place since the first tentative contacts between the two countries during the Namibia-Angola peace process. Soviet observers attended the peace talks and are believed to have played a mojor role in persuading the Angolan government and the South West African People's Organization (SWAPO) that peace rather than continued struggle was the priority.

South African officials involved in the talks, such as former Africa desk chief in the Department of Foreign Affairs, Glen Babb, have said that a considerable respect and trust was established between the two sides during the talks and the UN-supervised run-up to Namibian independence.

But the change in relations is more than just a realisation by South Africa that the Soviets do not have horns and tails. Glasnost and Perestroika have had an effect.

Soviet President Mikhail Gorbachev has distanced himself from policies built on the automatic assumption of conflict with the Western, capitalist world. Instead, he has based external relations on the need to rebuild the Soviet economy and to create a world environment in which to do so.

In Southern African terms, this has meant that the Soviet Union has urged its allies to seek peace and reconstruction of their shattered economies as the priority over ideological struggle. It has meant, too, that the Soviet Union is looking to countries like South Africa for mutually profitable trading relations.

The second point is becoming crucial. For decades, semi-clandestine trade relations have existed between South Africa and the Soviet Union in the form of agreements between the giant De Beers diamond company (notably its monopolistic Central Selling Organisation) and the Soviet state companies responsible for diamond production and exports.

The relationship resulted from sheer necessity on the part of the Soviet Union and commercial interest on the part of the South Africans. Now, as mutual distrust has been replaced by growing warmth and curiosity, both sides are keen to exploit trade and other economic possibilities.

Not everyone in South Africa is sure that full diplomatic relations are imminent. But trade is ripening already. A senior Soviet trade delegation, led by Foreign Trade Ministry official A.V. Chernukhin, toured South Africa in November to examine opportunities for trade and joint ventures.

After talks with Trade and Industry Minister Kent Durr, Chernukhin said agreement had been reached on South African help in the massive task on clearing up the still lethal debris of the Chernobyl disaster and in helping victims.

He added that this agreement could become the gateway for more extensive deals. Durr agreed. The Soviet delegation also held meetings with African National Congress (ANC) officials in Johannesburg to forestall their reservations.

There have been tensions between Moscow and the ANC. In June and July, they quarreled about plans by the Moscow State Circus to tour South Africa. .The tour was cancelled.

The ANC does not oppose better relations between Moscow and Pretoria. Albie Sachs, a member of the ANC constitutional drafting team, said the end of the white government's obsession that the Soviet Union and the ANC were plotting against South Africa, was constructive. Sachs added that increasing contacts and understanding between the two countries would facilitate change by creating a better environment for talks and lessening white suspicions about the ANC-Soviet relationship.

The South African government now sees the Soviet Union as a stabilising rather than a destabilising influence in Southern Africa. Deputy Foreign Minister Leon Wessels said he thought Mosocw was now playing a very constructive role.

The growing economic relationship could prove to be even more constructive. Both countries need foreign trade with a broad range of partners to improve economic performance.

Both government and ANC are aware that this is linked closely to the political future. They are also aware that once a political solution is hammered out, the economy, particularly the export sector, will be a priority.

Jack Simons, a leading ANC and South African Communist Party theorist, said that a government lead by or including the ANC would go all-out to increase South African trade around the world. With mutual interests in mineral production (notably gold and diamonds), the link between South Africa and the Soviet Union is obvious.

That link has been strengthened by a $5 billion deal between the Soviet state diamond company and a Swiss- based company, De Beers Centenary, which represents South African De Beers.

Under the deal, Soviet diamond production for the next five years wil be marketed by De Beers. An initial payment of one billion dollars is said to have already been made to the Soviet Union.

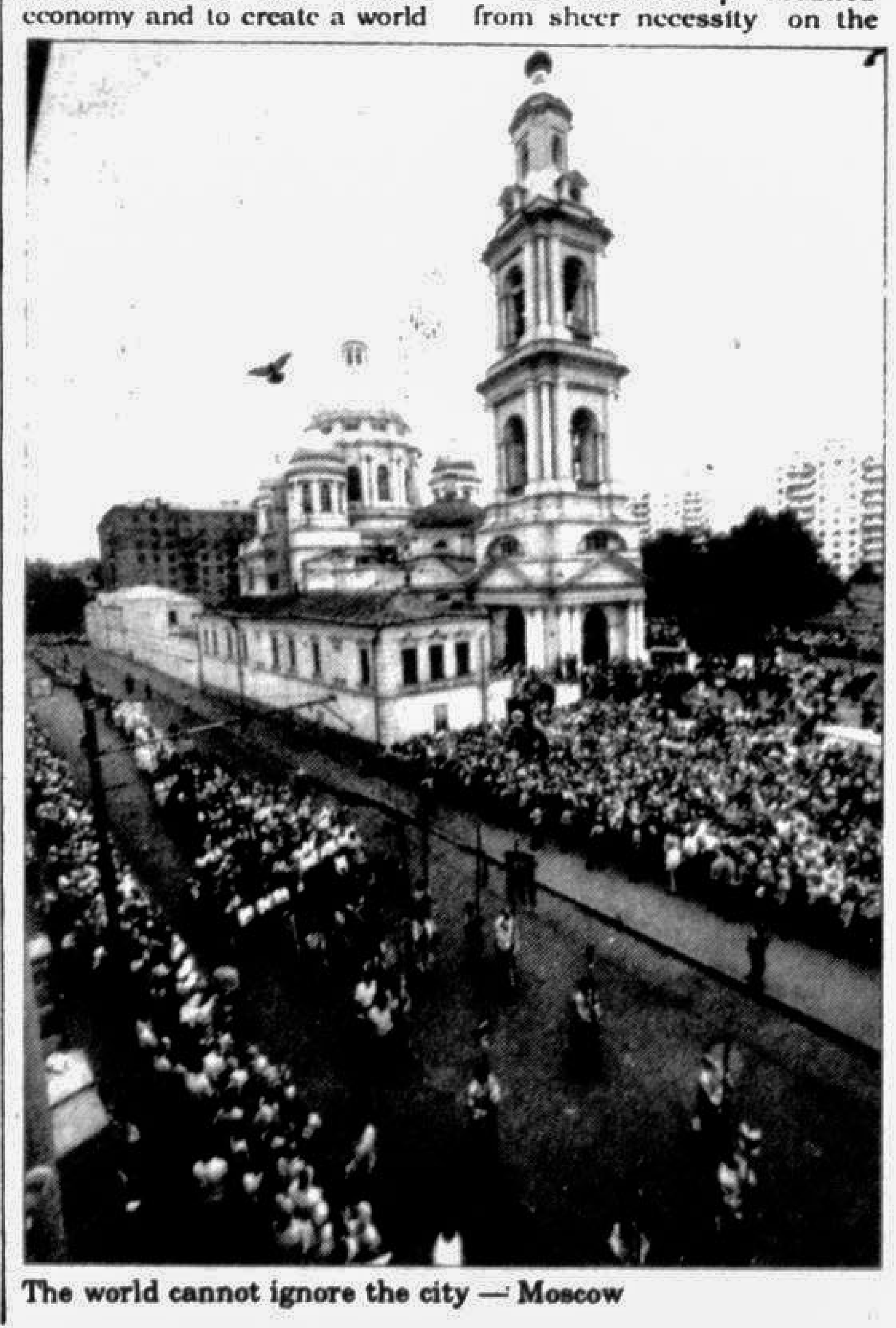
The deal is not without problems. The Russian republic, in which most diamond deposits are found, has objected to the arrangement, not because of sanctions, but in an attempt to get its hand on a chunk of the proceeds.

The Russian parliament in July passed a resolution condemning the agreement. It said deals are fine if negotiated jointly by the Soviet state bodies and the Russian ones. As this competition between the center and the republics continues, republics are likely to be interested in striking their own deals with South Africa.

South African interest in such arrangements is clear. During his recent Eastern European tour, Pik Botha included in his delegation a range of trade officials and business people.

They talked about trade and mining assistance deals with the Romanians, Czechoslovaks and Hungarians. Earlier in the year, South Africa and Poland struck a deal that would see South Africa import 200,000 tons of Polish iron ore.

With the export of revolution now a thing of the past, exports form the Soviet Union to South Africa wil now be increasingly commercial, not political. That will likely bring an exchange of goods, rather than abuse, between Moscow and Pretoria.



The world cannot ignore the city — Moscow

About the Author: KEITH SOMERVILLE is a writer and broadcaster on African affairs. He is the author of Angola: Politics, Economics and Society and is a regular contributor to South, New African and Africa Contemporary Record.