

POLICY OPTIONS FOR ECONOMIC BREAKTHROUGH Development Perspective and Priorities

by A M Zahiruddin Khan

"NEW Development Perspective" gives top priority to accelerated and sustainable economic development of the country. It focuses on: human resources development, participatory planning, women's participation and poverty alleviation. The main strategy for achieving these objectives would be generation of productive employment particularly to meet basic needs of the lower 50 per cent of the population thereby raising savings, investment and the purchasing power of the community. The specific strategies towards these goals would be: i) human resources development beginning with removal of illiteracy, provision of basic health facilities and appropriate population control measures, through adequate allocation to socio-economic sectors; ii) increased employment opportunities, particularly for the lower 50 per cent of the population residing in the rural areas through appropriate organizational and institutional mechanisms for participatory planning with effective financial discipline, input and manpower support and women's participation; iii) strengthening of the national economy through the development of the rural economy with priority of the development of agriculture sector; iv) promotion of competitive efficiency through appropriate transfer and adaptation of technology targeted towards supporting employment in agricultural and manufacturing sectors; v) promotion of joint enterprises collectively large but individually small with focus on agriculture sector, small trade and small industries; vi) promotion of private enterprises based on competitive efficiency with

thrust on export-oriented industries; vii) maximizing inter-sectoral linkages; viii) integration of macro-level with micro-level planning along with built-in accountability at all stages of socio-economic development process, and ix) integration of national conservation strategy to prevent the degradation of the environment and improve

can be stabilized, and increased further if public sector losses can be reduced. With the changing policy of the Government from a regulatory to a supportive intervention in the economy, coupled with commitment to market economy; and more broad based private sector participation at every strata will contribute to

has shown mark improvement in resource mobilization resulting in contributing 24% to the GDP from a negative position. It is expected that policies and fiscal measures being considered and implementation would enable the annual development investment programme to the extent of 33% by 1995. This in itself shows the inherent potential of the economy even at the present state if managed well to move towards a sustainable and self-reliance base. Therefore, it is appropriate that the nation as a whole contribute towards this healthy trend, so as to enable use of individual initiative, and a more broad based participation of our people. In this respect the private sector both in industry, and in agriculture has a important and responsible role to play. I assure you that the Government will provide pragmatic policy support wherever it is necessary, for overall economic growth, not only to arrest increasing poverty but to reduce it as rapidly as possible. This in turn will bring about increase in purchasing power and saving; which is a precondition for any meaningful industrial and economic growth.

wards a sustainable and accelerated economic growth.

Important Factors

The following important contributory factors must be taken into account: a) Improvement in fiscal management both in the Government and private sector. b) Positive and co-operative labour management relationship, entailing increasing productivity which can sustain improved wage base, and growth. c) Efficient export led growth primarily in the labour intensive sector can contribute substantially towards rapid expansion of external trade; which has been observed to be the major contributory factor in the NICs' economic growth. External trade expands at a much faster rate than the GDP and ultimately contributes in accelerating the GDP.

Among the fiscal measures already initiated by the Government the performance of the tax reform programme in the form of VAT has met the desired objective. Along with this during the last seven months appropriate fiscal measures coupled with control on unproductive expenditure

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its capacity of sustainable development with multi-level economic planning.

Annual Growth Rate

It is necessary to attain an average growth rate of 5% or more per year to improve living standard, investment and required rate of growth in future.

Prevailing economic condition and experience in many Asian countries encourages us to believe that Bangladesh with stable macro financial management, coupled with accountable and democratic political environment can achieve and sustain higher rate of economic growth of 5-6% per annum. In the past this potential could not be realized because investable funds went to inefficient sectors both in the public and private enterprises, due to over regulatory interventionary role of the Government. As a result the economy has to sustain huge losses every year resulting additional taxes. This drain of resources has impeded economic growth; as a result the poverty situation has deteriorated to an alarming level.

The economic growth rate

Experts Predict German Economic Boom

by Helmut Nagelschmitz

EXPERTS are predicting that a major economic boom will follow in the wake of German unification.

The overall reasoning underlying these forecasts is well-founded, even though exact figures on the economic state of a united Germany are still missing, according to Federal Economics Minister Helmut Haussmann in Bonn.

Chancellor Helmut Kohl, speaking at an "apprenticeship drive" in the new federal state of Saxony-Anhalt, conceded that a difficult phase was immediately ahead. Nonetheless, he made clear that the economy in eastern Germany would experience an economic surge of reconstruction following the inevitable process of restructuring.

and the government all the same. "This applies in a special way to the research and academic communities," noted Heinz Riesenhuber, Federal Minister of Research and Technology in Bonn. "The dedicated support" of the major economic institutions will help him to establish the prerequisite sites for the creation of a "market-gated and fruitful science landscape" in Germany.

The economic assistance foreseen in the Unification Treaty for the former region of the GDR will come to more than 50,000 million German Marks in the next several years. Chancellor Kohl noted during his first government declaration to the all-German parliament.

IN Press



Currency crunch

Chancellor Kohl announces program of economic support with volume of more than 50,000 million German Marks

"Former Chancellor Helmut Schmidt also sees the future as promising: 'This unified Germany will not need help from abroad; the economic dynamism of the Federal Republic suffices completely to bring the former GDR to the same level of productivity within a decade.'

Bringing about the rapid transition of the eastern part of the country to socially-oriented free-enterprise practices remains a major challenge for both the economy

Financial Reforms Benefit Private and Foreign Banks

by Tarek Rashid

WITH the gradual relaxation of the government's regulatory role in the functioning of the country's financial sector, the emerging trend is a satisfactory and interesting one, obviously making things easier for the private and multinational institutions.

The process of deregulation that began in January, 1990 has already come quite a long way passing in the process various phases ranging from — introduction of flexibility into the lending and deposit rates, permission for individual banks to establish their own rates within limits set by Bangladesh Bank (BCD circular 33 of 1989) to complete withdrawal of ceiling regulations on leading and deposit rates except few priority sectors (BCD circular 7 of 1992).

From 1972 to 1989 deposit and lending rates offered by scheduled commercial banks were almost static. Though some of the private banks offered little higher rates on deposit and little lower rates on lending those were not authorized by the monetary authority.

As a result banks despite excess liquidity could not compete with each other with their best possible rates depending on their cost of funds. Borrowers were compelled to pay higher rates and thus investment was more or less discouraged.

Bangladesh Bank, vide its circular in 1989 established a new approach to the setting of lending rates. The lending rates are to be set by each bank separately within the limits stipulated by the central bank.

In this regard, loans were classified in eleven lending categories and highest and lowest ceilings were set against those. Commercial banks could swing in between the higher and the lower bands.

Gradually these bands were lowered and recently (effective April, '92), it has been decided by the central bank that lend-

ing rates (except bands of inter-annual rates for lending to agriculture exports and small and cottage industries) would be decided by the banks themselves. In case of interest rates on deposits, only the minimum rates were given by the central banks. The maximum rate at which the banks will take deposits will be decided by the banks themselves.

Through this, much leverage has been rendered to the commercial banks. Now a bank

helped blow free air in the financial sector. Borrowers and depositors now have their choice to act upon. It has also been noticed that new changes have benefited the private and foreign banks, mostly, since they can quickly adapt to the changed situation. The following table shows a comparison between the static period of interest rate in 1989 and 1992 and the period after complete withdrawal of ceiling on interest rates.

will increase. Observers are of the opinion that private banks in order to compete in the changed market should decrease their cost of fund. Now private banks are swapping their high cost of deposit with high rate of commercial lending and trade financing, their high cost deposit is not allowing them to enter into the manufacturing sector which is serviced by nationalised and foreign banks.

Nationalised banks with their heavy involvement in the priority sector cannot exercise much of a leverage in the commercial sector. In this case, the concept of syndicated finance or consortium finance could be an ideal choice. But the concept of consortium lending, though much in practice in the neighbouring countries, is absent in Bangladesh. Observers feel that to ensure quality of the loan portfolios, exercise control on the borrowers and confirm repayment, consortium of banks are of utmost importance. This will make the loans approval and monitoring easy for the banks and chances of exploitation remote for the clients.

Lending through sharing the security is in practice in our country, so it is time for syndicated banking and consortium lending. Outside the central bank, commercial banks, through forming group and nomination of lead banker, should go for consortium lending. In this regard foreign and private banks should come forward. Foreign banks should be more identified in the nation building activities. It is also expected that with further liberalisation of the economy and increased investment, foreign banks will increase their share with better service, better skill and better performance.

They will borrow ideas and expertise from various network points and adapt with changed situation of the market and thus contribute to overall development. A competitive market should also develop the skills of the bankers involved in private and nationalised sectors.

With the withdrawal of bands, it has been noticed that some of the commercial banks (mostly foreign banks) are offering working capital loan at 12 per cent for their best customers having sound security, collateral and performance, on the other hand some banks (mostly private) are offering 13 per cent on fixed deposits while foreign banks are offering around 9 per cent. Nationalised banks, though little bewildered at the outset, are now adapting to the changed situation.

having excess funds can lend at a lower rate of interest while a bank suffering from liquidity crunch can offer increased rate of interest on deposits and thereby improve healthy competition in the financial sector.

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As mentioned, earlier, the introduction of ceiling/bands on interest rates and withdrawal of ceiling have already

In 1990 while deposits in nationalised banks showed an increase of 7.5% from 1989, it was 14 per cent for private banks and 11 per cent for foreign banks. Advances of nationalised banks increased by 14 per cent in 1990 while it was the same with private banks and 0.08% with foreign banks.

In 1991 while nationalised banks' advances increased by four per cent, private banks' advances rate by 16 per cent and foreign banks' by 5.5 per cent. Last month (After the BCI debacle), nationalised banks' deposits showed a negative growth, while private banks' deposit increased by 1.5 per cent and foreign banks' by 11 per cent. It seems that foreign banks have regained the depositors' trust which was considerably damaged after BCI debacle.

Of late foreign banks have reduced their rates again in order to suit the market changes and it is expected that their share in loan portfolio

South China — Fastest Growing Region in the World?

by Barbara Stewart

WHEN Deng Xiaoping chose the special economic zone of Shenzhen as the focus of his surprise New Year visit, no one who knows the wily 87-year-old Chinese politician was surprised.

Deng was simply emphasizing to party leaders just how much the plans for economic reform he began in 1979 have prospered.

As he toured Shenzhen's Xianhu Botanical Garden with Chinese President Yang Shangkun, Deng was overheard emphatically urging Yang to push reform even further, as quickly and boldly as possible.

Sounding more like a politician of the free-market West than the leader of the world's largest communist party, Deng was quoted as saying: "China should adopt useful facets of capitalism and not fear the ideological and economic challenge from capitalistic countries."

In 1979, the year Shenzhen was chosen to be China's first new Special Economic Zone (SEZ), the town was inhabited by farmers and fishermen. In those days the main street was a dusty road crowded with a steady stream of cyclists.

During those early years of China's tourism industry the only way to visit Shenzhen was

to travel the long two-lane road from Hong Kong in an old, battered bus, thankful at the end of the long trip for the grandmothers selling lychees and bottles of orange water that was, according to the local guides, the "closest thing to Fanta".

Shenzhen has changed.

Southern China is becoming an economic force to be reckoned with. Guangdong and Fukien provinces are now the fastest developing region in Asia — probably in the world. Shenzhen, in Southern Guangdong, was China's first Special Economic Zone (SEZ) created in 1979. A Gemini News Service correspondent has just visited the city and reports that, although old-style communism remains in place in Beijing, an economic glasnost has transformed southern China.

Now the city is a gung-ho acolyte of free-market economics and the most successful SEZ in booming Guangdong province.

An influx of Hong Kong investment capital has transformed the once sleepy village into a metropolis, complete with tall buildings, automobile congestion, a McDonald's fast-food restaurant and the beginnings of a stock exchange. Although the present exchange lists only six stocks, watching

the tape on the exchange's video screens has become Shenzhen's favourite pastime.

The lychees are not hawked by old women any more. The women have been replaced by rows of stores that somewhat resemble suburban shopping malls, selling the same goods and produce to be found in

that pushed the city's per capita income to \$ 2,000 per annum — in stark contrast to rural wages of less than \$ 200 a year — has swelled Shenzhen's population to more than two million.

Chung believes that Shenzhen's manufacturers became the highest earners in southern China, scoring \$ 11.4 billion in total foreign trade for 1991.

Shenzhen's transport terminal, Huanggang, is China's largest, and can handle 50,000 trucks a day. Located at the start of the Shenzhen-Guangzhou highway going into China and at the edge of the border with Hong Kong, the terminal's two-way traffic is an impressive confluence of trucks.

In the outgoing lane, trucks piled high with straw baskets of fresh produce or reeking with the smell of pigs vie with cargoes of plastic Ninja Turtles and micro-chips on their way to Hong Kong and markets worldwide.

On the return trip the trucks bring in refrigerators, TVs and blue jeans to a growing consumer market. Any lychee sellers at work these days ply their trade from the back of their Hondas and wear jeans and Reebok sneakers.

Favourable investment policies have also given neighbouring Fukien province a jumpstart on dynamic growth. Fukien, with a population of 30 million, increased exports 21 per cent from 1989 to 1991, a spectacular leap fuelled by Taiwanese money. It is second only to Guangdong as a destination for overseas investors, and the area is becoming a most prosperous trading bloc.

Guangdong and Fukien are in the Pearl River Delta, the fastest developing region in Asia — and probably in the world. The volume of Guangdong's exports in the first seven months of 1991 was more than 25 per cent higher than in the same period for the previous year.

While Asia's "Four Tigers" — Taiwan, Hong Kong, South Korea and Singapore — have been dazzling the world with gross domestic product growth rates that hover just below 10 per cent annually, Guangdong, with its 66 million residents, grew at 15 per cent yearly from 1986 to 1991.

Completing southern China's golden coast of open economies is Hainan Island, southwest of Guangdong province. In 1991 Hainan attracted 1,000 new enterprises and generated \$ 43.85 million income from exports, a 33 per cent increase over the previous year.

The gold coast of Asia



China is now planning to carry its policy of reform to Yunnan province, taking advantage of trade with countries in South East Asia.

Pu Chaozhu, secretary of the provincial communist party, says improved relations with Vietnam have offered new opportunities for trade. Pu says trade with Burma, Laos and Vietnam was \$ 128 million in 1990 and is growing rapidly.

Ultimately, southern China's impact on the Asian economy will be as significant to history as the fall of the Berlin Wall or the disintegration of the Soviet Union.

When Deng stepped out of retirement for his New Year tour of Shenzhen, the trip underscored his personal commitment to rapid economic change and was the strongest indication yet of his determination to keep China's door open.

— Gemini News

National Banks (in Taka Crore)			
Deposit	Increase %	Advance	Increase %
31.12.1989	12786	10034	-
31.12.1990	13750	11435	14
31.12.1991	16672	11905	4
30.04.1992	15845	12578	6
Private Banks (in Taka Crore)			
Deposit	Increase %	Advance	Increase %
31.12.1989	5090	3887	-
31.12.1990	5792	4416	14
31.12.1991	6594	5139	16
30.04.1992	6690	5325	4
Foreign Banks (in Taka Crore)			
Deposit	Increase %	Advance	Increase %
31.12.1989	1424	1200	.08
31.12.1990	1569	1201	5.5
31.12.1991	1813	1265	5.5
30.04.1992	2102	1279	1.5