

Feature Banking and Finance

# Soft Beverage Goes Global for Bigger Turn-out

by Iftikhar Ahmed Chowdhury

COLONIAL rules may now be a thing of the past, but a new kind of multi-national set-up has expanded its network all across the world. Today, it is difficult to think of a country in the globe where multinational soft beverage companies like Coca Cola or Pepsi-Cola have not invaded. Soft drinks have become increasingly popular throughout the globe in the last three or four decades. It is now a common phenomenon of the modern way of life. A sip at a bottle of Pepsi or Coke is satisfying regardless of the differences in time, place and people.

But many countries have had second thoughts about letting these multinationals into their land. Singapore had banned them. So did India. But after a brief interval Pepsi returned to India. In 1988 the company entered into a joint venture with India. Many complain that soft beverage are health and environmental hazards. True, to some extent they have harmful effects on the human body and the earth that we live in. But still the fact remains that they happily exist and only accelerating their network and not for a single moment lost their popularity with the consumers.

Pepsi-Cola first emerged under the label 'Brand's Drink' in New Bern, North Carolina, USA in 1895 and registered under Pepsi Cola trademark in 1902. From there Pepsi had started its relentless journey and in less than eighty years it grew as one of the most recognized business empires in the world. In 1980 Pepsi became number one in sales. Total Pepsi-Cola sales surpass Coca-Cola by \$5.1 billion. And in 1991 the worldwide retail sales of Pepsi-Cola soft drinks stood at \$26 billion. Brand 'Pepsi' retail sales amounted to \$16 billion throughout the world. So with Pepsi Cola, it has always been a story of commercial triumph.

The history of Pepsi Cola in Bangladesh does not go back too far. Pepsi has been in this country from 1975. Since then it had been steadily growing in popularity. Now Pepsi Cola is one of the most popular beverage in this country.

Bangladesh received Pepsi-Cola International Award for Achievement in quality in 1992. Pepsi-Cola International's Technical Director Lary Swartly flew down to Dhaka to give away the award to the local entrepreneurs here. During his stay at Dhaka

he offered a brief dialogue with The Daily Star in which he spoke about his company and its future plans in the international as well as the local markets.

Swartly started his conversation by saying, 'There is no big secret as to how our company have outgrown others in the international market. The only strategy that we believe in is that, we give availability of our product to almost everyone in the world who are willing to have it.'

How does Pepsi-Cola see its major competitors who have equally large or even larger market?

'I think it is a very competi-

ties in Japan and other places in the world.

Physicians and health analysts worldwide have singled out junk food and soft beverage as being harmful to health. Over consumption of these are partly responsible for the mounting number of cardiac diseases in the world. Doesn't Pepsi-Cola share the responsibility?

'Well, I would say that anything in moderation is okay. I think you get energy from soft drinks just like you get energy from other food. If people do not go to excess of anything, it cannot harm them.'

Would Pepsi-Cola consider the option of introducing sub-

as much as possible and try to recycle it. There are serious efforts going on around the world to do this.' He also added, 'We are trying to trace out environment-friendly substances with which we can produce our containers. I think our glass containers do very well. We would like to see that glass containers become available and popular all across the world.'

Many multinational companies have political motives behind their financial strategies and some play stellar roles in global politics. Although their political attachments are not always direct, people are led to believe that they influence

that any kind of political motive was ever there.'

About Pepsi's marketing and distribution system in Bangladesh, Swartly explained that, 'It is the bottler or the local businessmen who runs the operation here. Pepsi-Cola works as a kind of advisor to the local entrepreneurs. With our advice they decide their marketing and distribution strategies. We impart training to our local partners in areas other than technical, like distribution, merchandising, sales, forecasting and so forth. We also bringing our international expertise working on similar markets. In this way we transfer international experience into the local scenario and gradually the local market equipped with its international experience achieves a greater standard.'

One may feel tempted to know what Pepsi-Cola's business turn over is in Bangladesh and the rest of the world compared to Coca Cola. 'I think it varies around a little. Coca Cola is a very strong competitor. But Pepsi does well too. Maybe, Coke has a bigger market than Pepsi globally. But Pepsi is not too far behind. Pepsi is now the number one beverage in the United States. You see, Coke entered in many countries before Pepsi. For instance in Bangladesh Coca Cola was here thirty years back. But Pepsi has been here since 1975. In many countries coke entered first. In the Middle East, India, Russia we went in first. That adds to the experience for working in that very environment for many years. Whoever goes in earlier, gets the advantage in this business.'

Does Pepsi-Cola think of encouraging or assisting any kind of development activity in Bangladesh or anywhere in the Third World countries?

'I am not really the right person to be answering this question. But there are certain areas where we have taken special interest, specially in the sub-continent. Education is such a field. We encourage within our abilities to improve literacy rates in these regions. We also encourage the promotion of sports. We are all the time evaluating options that are open to us and from time to time we make our token contributions in these fields,' concluded Lary Swartly, the unusually shy and somewhat introvert American, a man behind the machine responsible for churning out soft drinks of the largest multinationals of the world.



Lary Swartly, Technical Director, Pepsi-Cola International handing over the Quality Award for '92.

tive market out there and as far as I am concerned it is good for all the competitors. When the competition is close, you always have to be on your toes and that helps improve your product.'

But what will Pepsi-Cola do to surpass others?

'There should not be any flaws in the marketing and operations areas and on the technical side, we want to make sure that we have the best equipment which would ensure better production,' said Swartly with an assuring smile.

In a competitive market one of the most urgent priority is quality control. There are a number of things we do for quality control. We make sure that we carry out periodic inspections of our plants, give training in quality control to our personnel and we also have a system where we pick samples of our products and test the date in our laborato-

ry health food or beverage under the same label?

'That option is always there. But it is a matter to be decided and implemented by the marketing and operations side. It is always being evaluated what people would like to have. Extensive market studies are always on. Actually, whatever packages or products we provide are decided by the taste or choices of the consumers.'

Most of the soft beverage companies use plastic containers and tin cans. Plastic does not dissolve into soil. So there is an obvious environmental pollution. When people are becoming increasingly aware of the need for ecological balance, a few soft beverage companies are contributing to environment pollution.

To this accusation Swartly replied, 'I think both the companies Pepsi and Coke have worked very hard to recover the materials that we use

global and international politics considerably. For instance, some East European countries who are now going through the so-called reformation, there to start with, we see MacDonalds, Coca Cola or Pepsi-Cola as a symbol of their metamorphosed way of life. Does Pepsi-Cola propagate its commodities as a symbol of Western consumer values?'

To this Lary Swartly affirmed that, 'It is not wholly true. Because, historically speaking Pepsi has been in Russia for many years. More than the 'western concept' I think it is the availability of our product which had made it popular. People worldwide like soft drinks. You see soft drinks have been around the globe, even in China for many years now. That the name of our company along with Coca Cola comes first may be because they are the largest and most successful ones. I do not think

# Pesticide Firm Sues Manila for Toxic Chemical Ban

by Inter Press Service

GERMAN chemical giant Hoechst is suing the Philippine government for banning imports of a chemical it uses in one of its best-selling pesticides.

Anti-pesticide lobbyists here say the lawsuit is a test case for the government's recent decision to switch to 'natural farming'. The Philippines is studying a possible ban on three more pesticides.

Court hearings began on 14 May on Hoechst Far Eastern Marketing Corporation's suit against the Philippines' agriculture secretary Senen Bacani and officers of the Fertiliser and Pesticide Authority (FPA) for grave abuse of discretion in banning imports of 'Endosulfan'.

On 14 April, Bacani, who is also the FPA chairman, approved the recommendation of FPA's pesticide technical advisory committee to ban azinphos-ethyl, ethyl, methyl, parathion, monocrotophos and endosulfan in its 35% emulsified concentration. All are considered highly toxic and hazardous to human beings.

The unprecedented ban took effect immediately, but manufacturers of the chemicals are allowed until 31 December to recall their stocks of the banned products from the market. Applications for alternative formulations of endosulfan, however, will be accepted and studied during the phase-out period.

Endosulfan, which Hoechst says is registered in 80 countries, is marketed here as Thiodan. The ban on the four pesticides affects other transnationals like Marsman, Dupont, Bayer, Ciba-Geigy and Shell. But so far there has been no collective move among pesticide firms against the FPA order.

Health experts say endosulfan causes convulsions, skin rashes and embryo malformations and is toxic to fish. The chemical is banned in India, Portugal, Singapore and Belize while its use is restricted in Indonesia, Bangladesh and Canada. The other three prohibited pesticides have also

been banned or restricted in various countries.

Jose Cruz, President of the 22-member Agricultural Pesticide Institute of the Philippines, estimates annual losses of \$20 million in pesticide sales to rice farms alone because of the ban.

Last year, 3.3 million litres of pesticides were used by Philippine farmers. The FPA-banned pesticides made up 64% of the 1991 sales of 2.1 million litres.

Hoechst has been accused by the anti-pesticide lobby group, the Centre for Alternative Development Initiatives

(CAD), of violating FPA regulations by selling Thiodan without proper warning labels. The firm denies this allegation.

The FPA said it wants to protect rice paddies near rivers from the chemical since it is highly toxic to fish. Rice paddies here also often double as fish ponds, whose produce end up on dinner tables.

Agricultural experts point to the 'green revolution' of the 1970s as the start of pesticide-intensive farming in Asia where new high-yield rice varieties that lacked the built-in resistance of ordinary rice increased the demand for pesticides.

The chemicals used were not only dangerous to human beings and the environment, but were also often misused or

mishandled by farmers, exposing them to more harm.

CAD project coordinator Joel Moran says while farmers are aware of the dangers of pesticide use and are willing to consider other options, they have the mistaken notion that their yields will drop. He likens farmers to 'drug addicts' who cannot get away from their chemical dependence but believes their decision to use pesticides is based more on economics than anything else.

'They feel the effects on their health,' says Moran, 'nothing that some farmers won't eat their own produce but have separate plots for their own consumption.'

In May the Food and Agriculture Organisation (FAO) released findings asserting that reduced pesticide use on rice crops can lead to increased yields. The study was based on the FAO's Integrated Pest Management (IPM) programme used by 200,000 rice farmers in Indonesia.

IPM, which uses natural pest controls in farming, began in the Philippines in the late 1970s and early 1980s but failed to gain much ground in this country.

FAO associate professional officer Koen Den Braber says that while the Philippines has a national plant protection policy and presidential endorsements of IPM, it was unable to get overseas financial support unlike Indonesia. Jakarta also put more emphasis on training, which is important to get IPM going, he adds.

FAO project specialist Alma Morales says they have little difficulty convincing Philippine farmers to switch to IPM but, until lately, the programme lacked government support.

The FAO, she says, is unfazed by the impending change in the administration in the Philippines and the Hoechst lawsuit since 'if you have a strong group at the grassroots level, you can make changes.'

— Third World Network Features/IPS

# India Entrapped by International Lending Institutions

DIMINISHING returns seem to have caught up with India's continuing flirtation with the World Bank and the International Monetary Fund (IMF). The more India yields, the less it gains.

On 11 November 1991, Finance Minister Manmohan Singh wrote to LT Preston, President of the World Bank, pleading India's case for a Structural Adjustment Loan (SAL) from that source. Some external finance, he suggested, was necessary in support of a programme 'aimed at the macro-economic stabilisation' of the Indian economy, and the restoration of its 'growth momentum'. In addition to a 'sharp reduction in the fiscal deficit', the strategy would cover 'reforms in the key areas of trade policy, industrial policy, the public sector and the financial sector.'

Manmohan Singh obtained a commitment from the World Bank to the tune of \$500 million. But about 40% of that amount was to be delivered only after the World Bank was satisfied of India's compliance with a detailed set of conditions — 25 in all.

When details of these conditionalities broke in the national press, Manmohan Singh found himself in a major row. He must have envied R Venkataraman, his predecessor as Finance Minister a decade ago. On the basis of much more modest promises, Venkataraman has managed in 1981 to extract a record \$5,750-million credit from the IMF.

It is a index of India's increasing economic vulnerability that for less than one-tenth the financial assistance, the Government has today to submit itself to a degree of external supervision that would have been inconceivable a decade ago. The relevant clause of the recent credit agreement stipulates that the Indian Government shall furnish to the World Bank 'for its review and comment a report on the progress achieved' in carrying out the structural adjustment

programme, in such detail as the Bank shall reasonably request.

There is no mention of parliamentary sanction in any clause of the agreement. In his recent correspondence with the IMF and the World Bank, Manmohan Singh thought little of doing away with such niceties. In contrast, Venkataraman had been more circumspect. Though he had conceded to the IMF the right to consultation in 1981, he had taken pains to emphasise that the measures adopted needed to be 'consistent with the national policies accepted by Parliament. The dilution of parliamentary sovereignty, begun in 1981, clearly seems to be reaching a high water-mark. Understandably, news of the

**One of the most painful developments in the Third World today is the entrapment of India by multilateral lending agencies such as the International Monetary Fund (IMF) and the World Bank. By comparing the conditionalities imposed on two loans granted within the space of a decade by these agencies, the writer in this article shows the increasing economic vulnerability of India.**

World Bank loan created an uproar in Parliament.

Sections of the Opposition were convinced that specific details of the Budget had been discussed with the World Bank during the loan negotiations. The National Front-Left combine alleged the budgetary exercise had been compromised, and that Manmohan Singh should resign in deference to established parliamentary principles. The Bharatiya Janata Party (BJP), while manifesting some signs of disquiet, was less insistent.

Manmohan Singh preferred the plea that only general directions of policy had been discussed with the World Bank, as is customary in any programme sponsored by that institution. No specific budgetary proposal, he said, had been leaked. As such, no question of a breach of parliamentary privilege was involved.

The Finance Minister was perhaps correct in a legalistic sense. It is another matter, if

the crucial difference between 1981 and 1991 is that the specific conditionalities in the earlier instance were based in substance upon a memorandum prepared by the Indian Government. In accordance with a detailed set of quantitative commitments given by the Government, conditionalities were formulated that were specific only in respect of a handful of economic variables.

The differences with 1991 are manifest. The World Bank, on 12 November 1991, specified in minute detail 25 different conditions which the Government of India was to accede to. Wide in their scope, these conditions go well beyond the commitments made in the Government memorandum.

The Bank, for instance, knew well before Parliament did, that the Government would, 'based on the recommendations of the Narasimham Committee, formulate a satisfactory programme of action to reduce interest subsidies in areas of directed credit, be-

ginning in April 1992. It also knew that a substantial initial reduction in the maximum customs tariff will be introduced in the 1992-93 budget. And it was confident that the statutory liquidity ratio of scheduled commercial banks would be reduced — a measure Manmohan Singh announced in his budget speech of 29 February.

These curiosities of the recent phase of economic policy formulation have been explained away by an elaborate theory of coincidence. Any similarity between the economic policy of the Government of India and the dictates of the IMF-World Bank combine is purely coincidental, the explanation runs. These are measures which India should be adopting in its own economic-self-interest.

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rise from around 2% of gross domestic product (GDP) in 1980-81 and touch a peak of 2.2% in 1983-84, before declining steadily to around 1.4% by 1987-88. But the current account deficit fell in the first half of the 1980s, and began rising rapidly midway through the decade.

Part of the reason is the miserable performance of Indian exports. As the export sector struggled, the country's external debt burgeoned. Debt servicing charges rose from 9.1% of total current receipts in 1980-81 to 22.3 in 1985-86 — again belying IMF projections.

In 1981, with the arrival of Ronald Reagan in Washington, the US proceeded to inaugurate a phase of monetary contraction and fiscal expansion, which impinged upon the fortunes of the Third World in two distinct ways.

First, international interest rates spiralled out of control, pushing several advanced economies into recession. This cut sharply into the exports of Third World nations. At the same time, rising interest rates made buffer-stocking operations prohibitively expensive. Commodity prices crashed, with ruinous effects upon Third World earnings.

A second result was that high interest rates in the US attracted a massive migration of capital towards that country. To utilise fully the opportunities for profit afforded by the US fiscal deficit, international banks had to pull out the capital invested in most Third World nations. Access to capital became progressively more difficult for these nations. The little they could obtain was at exorbitant rates of interest.

The role of the IMF in this entire process is not to be missed. When the first signs of distress became manifest from Third World borrowers — notably Brazil and Mexico — in 1981, international banks came perilously close to a collapse.



New products from the old: The recycling industry prevents waste. — Photo: INP

Rather than extend themselves further in Third World lending, the banks preferred to pull out and move towards the lucrative American market.

They pulled out a total of \$33,000 million from the Third World between 1983 and 1984. To facilitate this, IMF made net advances of \$11,000 million to Third World nations, leaving its financial administrations with generous doses of advice on how borrowers should manage their economies.

And, as IMF conditionalities came into play, the poor of the Third World had no option but to tighten their belts. It was the poor who paid the terrible price for the reckless borrowing the Third World 'elite' had indulged in, on terms they had little control over.

IMF lending to most Third World countries in the 1980s served as the precursor of the retreat of international banks. In India, the IMF loan of 1981 served as the pathfinder.

International banking interest was aroused by India's acceptance of an IMF-dictated regime, and they were quite forthcoming with loan all through the decade. India had — after China and Nigeria — the fastest growth of external debt among all developing countries in the 1980s. From the modest level of \$20,000 million in 1980, its external debt burgeoned to \$70,000

million by 1990. Because of the general hostility of the world economic environment, these loans were contracted at terms far less favourable than those of the big borrowers of the earlier decade had enjoyed.

The entire strategy came a cropper in 1990. The loss of international banking confidence that year has been attributed to India's balance of payments difficulties, following the Iraqi occupation of Kuwait.

This again is only a partial explanation. The fundamental reason was the generalised crisis of international banking, which suddenly encountered the possibility of a disruption of capital flows from the oil-exporting nations of the Gulf.

Having rashly extended themselves in financing the thoroughly unsustainable US fiscal deficit, international banks again found themselves facing a moment of reckoning.

Curtailment of credit to risky Third World customers was the first priority.

The prospects of additional capital flows to the developing countries have never been as bleak as they are now. Major international banks — especially in the US — today stand on the verge of insolvency, after having immersed themselves in the debt-induced growth promoted by Presi-

dents Reagan and George Bush. Moreover, new capital adequacy norms are likely to make incumbent upon international banks to curtail credit and expand equity base.

The IMF visitation of 1981 opened India out to the international banks.

The combined IMF-World Bank ingress of 1991 is likely to shut the door tight, as in other development countries in the early 1980s. If there is to be a shortfall in commercial credit from abroad, the entire structural adjustment programme worked out by Manmohan Singh will come unstack.

Perhaps the only saving grace in this situation is that the Government at the Centre is still in a minority, and that the ruling party's writ does not run in more than half the States of the Union.

When the crunch comes, this will perhaps be the only factor restraining the Government from following up its Latin American-style debt spurge, with an emulation of the Latin American style of political management.