

# Prospects for a Capital Market in Bangladesh

Expatriate Bangladesh nationals often invest in land or buildings in Dhaka or other cities only because they have few options to invest in productive enterprises.

## Armed Forces as a Pillar of Democracy

The proudest of our feelings for our armed forces stems from the fact that it was the creation of an unrecognised nation fighting for a foothold among the comity of nations and sheer survival of a whole people. Under the command of a provisional government in exile — this was an armed force of conscience, of patriotism and lastly, of humanism. On the occasion of the Armed Forces Day celebrated all over the country yesterday we shall not only hope but also as the citizen-keeper of these forces demand that it remain so as long as nations would need armed forces for physical defence against violations from outside.

Besides our sincerest offering of gratitude to our forces for the role of valiant heroism and sacrifice they played during the Liberation War, we salute again these servants of our people for playing a most important part in the restoration of democracy after a long and almost unending night of autocracy. It is for that flash of good sense to refuse to be anymore a tool of underwriting any man or group's gravely wrong and patently unconstitutional realisation of political ambitions and a continuation of that, we can today meaningfully salute our armed forces right from our heart and not indeed made to do so. We liked, loved and celebrated that change of heart that enabled the citizens to eschew their traditional fear of the army and instead accept it as a benign adjunct to our national existence.

Political independence, the one that we won at so much cost, can be clouded by anti-people developments inside the nation leading to undermining democracy and the Constitution and as such compromising the sovereignty of the state and its first premise — people's power. This has happened here time and again. On the occasion of the Armed Forces Day, we appeal to our valiant brothers and sisters in the armed forces that they do not allow the creation of situations where their good name could again be subjected to debate in the matter of our nation's political unfolding.

We shall be falling in our duties if we do not attempt at paying our debts of gratitude to our armed forces for the yeoman service they rendered to the nation in its oft-repeated time of extreme physical distress, caused by flood and famine, drought and tidal bore. Theirs were always the best of succour that reached the devastated ones the quickest.

The best guarded nation is where it is the least showed thing. Let our defence be all efficiency and right spirit and let it shun all attempts at making it all ritual and little substantial. Our salutes again to all who dare death in order that all of us live as a proud and respected national entity.

Many ideals of the Liberation War and the long democratic struggle of the Bengalee people preceding that have been vitiated by the evil fall-outs of anti-people politico-economic developments. It is unfortunate that like the nation at large the armed forces were also a victim of that. But we are now on the path again of a new dawn. And in this our new march we want an armed force as an epitome of patriotism and an unflinching pillar of democracy.

## Bangladesh and the Sea

Already with a lot of natural furies to contend with, Bangladesh is facing a new threat now from the global temperature rise and the consequent swelling of the sea. The looming threat has at last become the subject of deliberation at a workshop of some eminence. Organised by the National Oceanographic and Maritime Institute (NOAMI) and participated by the Inter-governmental Oceanographic Commission (IOC) and the United Nations Environmental Programme (UNEP), the four-day workshop that concluded on Thursday last is fairly representative of the South Asian Seas (SAS) region. The workshop is specially important for Bangladesh because it has almost entirely been devoted to the cause of Bangladesh, so far as the threat from the sea is concerned.

Undoubtedly, a piece of very good news for us. Experts from Sri Lanka, India, Pakistan and the host nation have come to the conclusion that Bangladesh should concentrate on the issue quite seriously and this cannot be done without a separate body established preferably under the Ministry of Environment. The proposed agency will be solely responsible for coordinating studies on the global warming, sea-level rise and the effects thereby. Right at the moment, the world's scientist community is busy studying the greenhouse effects and the melting of ice in the arctic zones. The costs of such studies are beyond our budget. A global problem of such magnitude however will demand that the scientists working in the area share their knowledge and data with nations not capable of carrying such research independently. We are hopeful, there will be no dearth of will in doing so.

Sharing of information, however, does not necessarily mean that the problem confronting Bangladesh in the event of a one metre rise in the sea level, as predicted, will be solved. But the prospect of 10 to 17 per cent of the country's landmass going under sea is a most dreaded one. Much as the scientific and technological development may have taken place, it is not yet good enough for beating the approaching sea. What however can be done is to plan, long before the doomsday arrives, for minimising the losses of both lives and property.

In this connection, there are two vital points to be taken into reckoning. First, for quite a long time we were consistently told that Bangladesh was poised to reclaim a vast landmass from the Bay of Bengal. Now we come to know the most unpalatable truth. The problem with such confusions among men who matter is that these contribute to arriving at wrong decisions in policy formulation. Second, now that the world has become more concerned about the deteriorating global climate than it ever was, the cause of our common destiny can be more convincingly put forward for international appreciation. Delegates at the Rio conference voiced, in no uncertain terms, that the rich nations should share the major burden of making the world pollution-free, since they are the worst offenders.

Yet the tragedy staring in the face of this country can surely be brought down to the minimum if the international community helps us to evolve an appropriate measure in time. Better still it will be if industrial pollution and environmental degradation the world over can be halted and even remedial measures taken for offsetting the temperature rise leading to the restoration of environmental health of this planet.

**B**ANGLADESH has neglected the equity market as a source of funding for its industrial development. In fact the small Dhaka Stock Exchange has not played any significant role until now in mobilizing resources for financing industries. The reason for this is not far to seek. Our dependence on foreign aid has dominated our thinking for the last four decades. Government to government loans and grants, concessional loans from international financial institutions and commodity grants etc have been the most common mode of financing development including financing projects in the industrial sector. Development Finance Institutions (DFI) have provided the funds in a pattern of financing which has become the standard procedure in Bangladesh. In a few cases industries have been set up by multinationals by what I would call, direct foreign investment.

I have the impression, from what I have been able to observe, that civil servants and politicians who are guiding our economy have little understanding and perhaps even less interest in this mechanism by which equity capital is raised for industrial ventures. I can not find any other reasonable explanation for ignoring this most effective and efficient method of mobilizing domestic capital and attracting foreign capital. In seminars and symposia one hears discussions about the difficulties of mobilizing domestic resources for development. In a country as poor as Bangladesh it is no surprise that our rate of saving is low. But whatever saving there is it does not go into productive channels. It is often invested in either land or gold or kept in the banks as fixed deposits. The commercial banks, for very sound and proper reasons, lend this money for short term trading or for working capital to businesses and industries. It is not utilized for financing industries in the form of long term loans. Thus our savings, meagre as they are, do not contribute to the industrial development of the country on a significant scale. If the option of buying stocks and shares was there it would have been a different picture. Funds would have flowed into industrial projects with long gestation periods. Bonds and debentures would have offered a real alternative mode of raising funds for expansion, modernization or even building up inventories. Income and employment can rise only from investment in productive ventures and not from raising the market value of land or buildings. A vigorous capital market which is reliable and well regulated would become a magnet to attract domestic savings and provide the much needed shot in the arm of the private sector. In due course it would also attract foreign capital in an effortless way.

Equity capital is the non-debt creating capital for a company. For example, when a company issues shares and stocks in the market the sale proceeds constitute its capital. Those who buy these shares and stocks become the joint owners of the company. The company can also raise capital by issuing bonds and debentures but this is really a medium or long term loan from those who buy these instruments and thus its character is different from equity capital. The success in raising working capital by issuing bonds is largely dependant on a well developed and well regulated capital market. A company can also borrow short term working capital from banks by mortgaging some of its fixed assets. This is what the Bangladesh companies mostly do to raise working capital. As a result most of our savings which are deposited in the commercial banks end up as short term loans.

We talk about foreign investment but we have paid little attention to this most efficient mechanism for attracting investment from abroad. Given the poor prospects for official development assistance in the

coming years it would be certainly prudent to develop a capital market in Bangladesh which will enjoy the confidence of the public and which will be properly regulated and supervised by the government to ensure that public interests will be fully safeguarded. Other countries in our region are utilizing this mechanism to finance industries. However even those countries in our region which have relatively active capital markets, the value of share issues in relation to gross domestic product has been small. A comparison with some of the developed countries, as given in the following chart, will illustrate the point.

companies in the developed countries. (I have taken the figures for only two years just to show the trend.) In the developing countries in our immediate neighbourhood, the percentage of share issues in relation to GDP is still small but steadily rising. Malaysia is an exception since the share issues in that country as a percentage of GDP is already very high. In the case of other countries, starting from a low base, they are increasing the percentage. I do not have the figures for Bangladesh but presumably the percentage of share issues in relation to GDP will be negligible. Both the domestic investors and in par-

political pressure. Currently we seem to be going through such a phase. In contrast, an industry which raises capital through the stock exchange by issuing shares has a strong incentive to improve the performance and pay higher dividends because the value of the shares will appreciate only if the company is able to make good profit. Thus success and not failure, is rewarded.

We all know about the frustration of the expatriate Bangladesh nationals who often invest in land or buildings in Dhaka or other cities only because they have few options to invest in productive enterprises. If the companies listed in the stock exchange were large in number, if the rate of return was based on fair and honest reporting or at least if the public believed these reports to be honest and if the regulatory agencies of the government inspired confidence, then these stocks and shares as well as bonds would have offered a genuine and acceptable alternative investment channel to them. I believe India is successfully tapping this very important source of additional resources to finance industrial growth. Pakistan is also taking some initiatives in this direction. We do have a stock exchange but those who are knowledgeable about its operations do not feel that it enjoys the confidence and reputation necessary to mobilize public savings unless the whole structure is thoroughly reorganized. India and Pakistan have revised the archaic company law of 1913 but Bangladesh has not yet deemed it fit to take up this most vital task. The Dhaka stock exchange is run entirely by brokers and members. Is there any system to ensure that the companies are not denying the share holders of their legitimate profit? How come the rate of dividend is generally less than the interest rate on deposit? Can this situation create confidence in the minds of the investors? There

has to be competition among the stock exchanges. India and Pakistan are conscious of this aspect and accordingly both these countries have more than one stock exchange to create a sense of competition among the companies as well as the brokers.

Here is a very proper role for the government. It can ensure a level playing ground by establishing a strong regulatory agency and ensuring that the investors — specially the small investors — will not be cheated out of their savings by unscrupulous manipulators.

I hope the government will think about this question seriously in the context of its policy on privatization. This policy will become more efficient and successful if the shares and stocks sold by the government can be handled in a professional manner by a well organized and efficient capital market. Many family owned businesses can enlarge their capital base by their conversion as private limited companies. Above all, foreign investment can flow in the country in terms of purchase of securities. Provided, of course, we are able to put our house in order and create necessary confidence among the foreign investors. We should take note of the fact that international financial flows have been playing a significant role in the dynamic economies of East and South East Asia. Why can't we learn from their experience?

Of course there are many pitfalls that one has to guard against. Speculative investments made by a foreign investor can have a destabilizing influence under certain circumstances. Despite such risks, I believe that the country will gain immensely by organizing a capital market which can offer an alternative to the investors in Bangladesh who are today limited to mainly bank deposits or savings certificates issued by the government. The time has come for us to move beyond that stage but will the government take up the challenge?

## ON THE RECORD

by Shah AMS Kibria

VALUE OF SHARE ISSUES AS PERCENTAGE OF GDP	
Industrial Countries	1980-81
Canada	40.1
France	7.4
Germany	9.0
Japan	35.3
United States	49.2
Developing countries	
India	65.7
Malaysia	5.9
Pakistan	2.9
Rep of Korea	6.1
Thailand	3.2
Industrial countries	1985-86
Canada	43.9
France	17.9
Germany	29.1
Japan	81.3
United States	61.0
Developing countries	
India	8.6
Malaysia	53.1
Pakistan	5.0
Rep of Korea	11.3
Thailand	5.9

The above figures clearly show that share issues is a major source of financing

particular, foreign investors can be attracted to invest in stocks and shares in our companies if we can organize and build up a proper equity market. Companies can raise funds relatively easily if the facilities for issuing bonds and debentures were there. The near-total dependence that we have in Bangladesh on government banks for financing industries seems to be having a curious effect on the industrial scene. Political influence instead of economic viability becomes a major factor in granting loans. Have we not been reading juicy stories about loans granted under the influence of the fallen autocratic regime to their favourite businessmen? These politically well connected people find it very convenient to get their industries declared "sick" because such sickness is a very profitable business. They often get rich even when the industry is alleged to be in a terminal condition. They get exempted from interest payment (thereby discriminating against healthy industries) and often get fresh credit under

## TRENDS OF JAPAN'S OVERSEAS INVESTMENT AND CASE OF BANGLADESH-II

# China, Other Potential Regions in Consideration

by Ahmad Mahmudur Raza Chowdhury

**T**HE enormous size of the market, availability of cheap and abundant labour force and a basic shift in the policy of Chinese government began to attract Japanese investors to that country from early 80s. Foreign investments in China are mostly located in coastal areas, such as Fujian and Guangdong provinces and the cities of Tianjin and Shanghai. Chinese investment boom, however, suddenly plummeted for a while after June, 1989.

Signs of improvement began to reappear in early 1991 and the prospect of inflow of Japanese investment rose again after Prime Minister Kaifu visited China in August, 1991. Chinese Communist Party Secretary General Jiang Zemin made a return visit to Japan in April, 1992 to further improve ties between the two countries.

The winds of change that blew across the Eastern Europe paved the way for dramatic increase in foreign investment in the region. By the fall of 1990 total foreign capital joint ventures in the former Soviet Union and Eastern Europe reached 11,234 from a modest figure of 379 in the fall of 1987 according to a survey conducted by the JETRO at the end of 1990. However, Japan's share of joint ventures remained all along small. It rose to 48 in 1990 from 10 in 1987.

Japanese investment is still shy in Eastern Europe because of cautious nature of the Japanese businessmen. There also exists a lack of confidence so far political stability and consistency of economic policies of East European countries are concerned. Other reasons cited by the Japanese corporate business people for going slow in East Europe are: (1) lack of industrial infrastructure, (2) shortage of manpower, skilled worker and mid-level corporate managers and (3) not so dependable currency exchange policy.

The present generation of

East Europeans have been brought up in the atmosphere of command economy and hence there exists a perception gap and somewhat inadequate knowledge of how the corporate business operate globally. The abortive push by the Soviet hardliners in August '91 further delayed the flow of Japanese private investment to those countries. Japanese government's patronization is also not likely to come until its dispute with Russia over the northern islands is settled.

To compensate for low domestic savings and dwindling foreign aid, the Latin American countries are restructuring their economies and adopting series of measures to attract foreign investment. But the

**The flow of Japanese overseas investment in manufacturing sector has reached a crossroad. Now there is a temporary phase of indecisiveness caused by various economic compulsions. But the momentum of foreign investment will be regained once the future course is charted and the incubation period is over**

confidence, extremely inadequate infra-structural facilities and shortage of skilled workers and mid-level managers make the overall investment prospect in the region still murky. Future political stability and a tilt in Japanese government's policy towards the region may give rise to the increased flow of Japanese investment. But the rush is unlikely to match the tempo that was observed in the case of ASEAN countries in the second half of the Eighties because of obvious inadequate infra-structural facilities and shortage of required management cadre. Minimum time period in needed to overcome

these hurdles. Bangladesh, India and Pakistan unveiled new industrial policies in 1991 that envisaged further deregulation, laid emphasis on market economy and committed to the growth of private sectors. Incentive packages have also been announced to attract foreign investment. Once political turmoil comes to an end, Sri Lanka is also likely to follow the suit. Economic institutions, corporate businesses and private investors in Japan are watching the actual performance of these countries' economies in the wake of the announced policies. They tend to go by the old dictum that the veracity of any claim must be tested on the anvil of its performance.

South Asian countries have, however, comparative advantages vis-a-vis Indo-China region in terms of better infra-structural facilities, bigger market size, higher technological level, abundance of work force (particularly skilled workers/mid-level managers) and a long-time familiarity with the working of market

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## To the Editor...

**Ambulance service**

Sir, Of late, there have been an editorial as well as a weekly feature (Down to Earth) in your esteemed daily on the position of our ambulance service in the city, and in other parts of the country. Besides the Fire Brigade ambulances in the city, an excellent service is provided by Al Markazul Islami (Ph No 324069) located in Babar Road, Al Markazul Islami provides a free service, and are well equipped to meet emergency needs. Furthermore, they also have arrangements for carrying the dead.

There are other ambulance services: (a) Red Crescent (Ph No 400188), (b) Anjuman (Ph No 239808), (c) Green Ambulance (Ph No 509462).

Besides, the different clinics and the government hospitals also have the ambulances, but the charges for the first category are high, and in the second case, the transports are often busy elsewhere.

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