Promoting investment — how our neighbours look at it

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In the recent World Economic Development Congress organised by the CNN in Washington DC, policy makers of developing countries from South Asia, Eastern Europe, Latin America and China were invited to a special session on "Development Policies that Best Promote Investment: How to Market Your Country."

Among the participants were two key policy makers from South Asia — Sartaj Aziz of Pakistan and Manmohan Singh of India. Sartaj Aziz dwelt at length on the policy reforms which Pakistan has undertaken to promote domestic investment and to attract foreign private investment. Manmohan Singh concentrated on a smaller number of key preconditions for realising this objective in the context of policy reforms.

The Pakistan Finance Minister spoke of a number of areas which have been identified by his Government as essential for promoting investment. He listed them as: expanding the role of the private sector, privatization of public enterprises, liberalisation of the economy, an appropriate legal and regulatory framework, labour discipline, strengthening of infrastructure, and fiscal balance.

As for an expanded role of the private sector, saying that the mechanism was right, Sartaj emphasised the need for careful planning for getting there. This objective cannot be realised merely by declaring a liberal investment policy, he said; important preconditions for stimulating the private sector being deregulation of investment and foreign exchange regimes.

A modality which the Pakistan Government is trying is to give the private sector the right of first refusal for a number of planned investment projects. In the programme of privatisation of public enterprises the Pakistan Government have taken a broad view and have already opened up the tele-communication and power sectors to private investment. An important hurdle crossed by the Pakistan Government in the process of privatisation has been careful and successful handling of the labour situation as it would involve retrenchment of organised labour. According to Sartaj they have handled the issue politically with reasonable success, and in the process the Prime Minister himself was actively involved.

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The Government has looked upon liberalisation of the economy as much more than simplifying or reducing tariffs and taxes, announcing deregulation and liberalisation of policies. Change in the attitude of the bureaucracy was equally important, he said. Though Pakistan has a reasonable legal and regulatory framework for promoting private investment, indepth review and updating their contents have been undertaken. Apart from brisk activities in putting a modernised legal framework in place involving company law, commercial law, labour law, etc two important agencies — the Central Bank and the Security Authority — have undertaken large-scale review of their regulatory mechanisms. The idea is to close all existing gaps and doubts in their respective areas and to ensure that the regulatory and legal framework do not undermine liberalisation and deregulation in other areas.

Special dispensation has been considered in respect of labour laws in the areas of export production, and investments involving high technology where labour discipline is an important precondition for adhering to production schedules and completion of orders.

In the field of infrastructure the Government has undertaken an ambitious programmes in the physical as well as social sectors. The private sector is being involved in expansion of physical infrastructure for ensuring efficiency of their operation, maintenance, pricing of services, etc. The Government is also actively pursuing new modalities like BOT/BLT (Build Own & Transfer/ Build Lease & Transfer) etc. The programme for building an expanded physical infrastructure network has taken into account potential trade and investment links with the markets of some CIS countries in Central Asia with whom Pakistan is pursuing an active relationship.

The social infrastructure development programme aims at establishing social balance: rural vs urban, rich vs poor, and developed vs undeveloped areas. An important objective of this programme naturally is human resource development. Along with these, Pakistan has also undertaken a strong environment protection programme and a national conservation strategy. Fiscal balance has been recognised by the Pakistan Government as an important element in improving the overall economic environment for ensuring stablization of price level, and promotion of savings in the economy.

Manmohan Singh agreed with Sartaj Aziz on the broad framework which he elaborated for promoting investment in the context of economic reforms. But he highlighted three key preconditions for these policies to succeed. He put emphasis on rule of law, democracy, and clear mandate of the elected leaders. Manmohan Singh pinpointed rule of law and transparency as crucial to all successful and viable economic reforms.

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He also emphatically mentioned that economic change would be sustainable only if adopted through a democratic process rather than based on diktat of a 'strong' Government. Political leaders of the country and of the government must own the policies, he said. He also added that unless there is an acceptable rate of growth of the economy as reforms proceed, it is likely that the reform programme will lose support both within and outside the Government, and in the process investment will suffer.

In his view technocratic framework of reforms, however efficiently drawn, will be meaningless in the absence of endorsement from the highest level of the Government. As an example of the importance of political consensus in a democratic society the case of special economic zones in China was mentioned. It would need intensive political exercise and accommodation if India wanted to set up such special economic zones in a particular state rather than in another. Such a decision could not be imposed by the Government of India unilaterally without political consensus arrived at through a democratic process.

Sartaj Aziz appeared quite optimistic about the success of Pakistan's economic reform programme. He went so far as to say that in the seventies the four East Asian 'tigers' came to the fore, and in the eighties it was the ASEAN countries like Malayasia, Indonesia and Thailand. In the nineties, he said, it would be Pakistan, China and India. He hastened to add that growth in the East Asian 'tigers' and the burgeoning ASEAN economies were undoubtedly assisted by a congenial international environment.

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'Taking the common position of developing countries Sartaj pointed out that though flow of capital and investment was now free globally, world trade flow was still restricted, and the international monetary system was yet to assure stability of interest and exchange rates, putting the developing countries at a disadvantage. He also referred to the lack of coordination of fiscal and monitory policies of industrial countries which is an important precondition for the success of policy reform efforts of countries like Pakistan and India.

When questioned about the reasons for his optimism Sartaj pointed out that in several countries of East Asia and of the ASEAN region constraints in infrastructure were hurting growth of investment; the East European countries lack entrepreneurs, hardly have a viable banking system, and their stock exchange and capital markets are yet undeveloped. It will take these countries sometime before they develop these institutions for attracting foreign private investment from the industrial countries. He also highlighted the growth potential that Pakistan has from expanded activities of the Economic Cooperation Organization with Iran and Turkey, now projected to extend to some former Soviet republics in Central Asia.

Manmohan Singh pointed to the long tradition of private enterprise in India with a domestic market of about $300 billion, which could expand to about $600 billion by the turn of the century. Therefore, regardless of what happens in the international system there are opportunities in India for growth of both domestic and foreign investments, he said.

A participant in the session familiar with the South Asian situation said that investment must grow in the domestic sectors first, before foreign private investment could go there. Unless this happened, he said, foreign investment would possibly be limited to portfolio investment in a limited number of high profit enterprises. It is also important, the observer said, to ensure coordination of internal Government policies so that different policy makers speak in one voice both within and outside the country.

An important constraint in South Asia for privatisation of public enterprises would be to take labour into confidence and that would require political leadership and statesmanship. South Asian experience showed that more often than not, political leaders were inclined towards adopting populist stances to earn popularity, undermining economic contents of their own programmes in the process. Another important preconditions in the South Asian context, the speaker said, would be to transform the attitude of the bureaucracy so that the message of reforms travels down the line and to the points where the entrepreneurs meet them.

The Pakistan Finance Minister did not seem to consider the social costs during transition a major or serious problem, and appeared to be confident that these were being handled successfully at the political level. One reason could be that the growth of employment in Pakistan is ahead of other major south Asian countries aided by a GDP growth rate of six to seven per cent for over a decade. But the Indian Finance Minister looks at this more realistically. On an earlier occasion Manmohan Singh elaborated this by saying:

"We recognise that the restructuring of Indian industry would involve some social costs in the transition period. It is necessary to build a social consensus on how to handle this problem and, in particular, how to mitigate the burden of these costs on those least able to bear them. We are trying to develop this consensus through the active involvement of political parties and trade unions."

Sartaj highlighted the proactive economic relationship which Pakistan is pursuing with some of its neighbors to the west and north. The huge internal market makes investments for such outlets of secondary importance to the Indian economy. In the case of Bangladesh the situation is different from either of these, tainted by political sensitivities. It remains to be seen where the ongoing cautious exercise on trade (and industrial?) cooperation between the SAARC members leads to.

In Bangladesh ideological debate on the relative merits of public and private investment will no doubt continue. But at a time when public and private investment, not to speak of foreign investment, are practically stagnant, it will remain and academic exercise. The focus at this time should instead be on efficiency in a pragmatic manner. Pragmatic state intervention and state activism can undoubtedly promote investment and economic development with simultaneous growth of the private sector as experience of many Asian countries demonstrate. But an efficient Government is an essential prerequisite for this.

It will carry no conviction if ideological emphasis on the private sector tends to hide inefficiencies of the public sector. No donor or international organisation will cry foul if the Government can demonstrate its efficiency and deliver the goods expected of it. There is no danger in our situation that an expanded public expenditure programme will 'crowd out' the private sector. In fact an efficiently executed public investment programme and an efficient financial sector will help the private sector to 'crowd in,' and foreign private investment will come only when there is a dynamic domestic private sector aided by these factors.

The reform matrix in Pakistan and India is basically woven around the standard package of stabilisation and sectoral policies which Bangladesh is also pursuing. But there are differences. Because of lower per capita income and much lower savings we are much more dependent on foreign assistance, in particular concessional official development assistance. This puts us on the spot in terms of performance criteria as was revealed during the recent visit of the World Bank President. A more significant difference is the longer history of private entrepreneurship in Pakistan and much longer in the case of India. Then there are differences in the structure of public expenditure and the nature of governance.

The reform programmes of Pakistan and India are bold. But important issues remain to be resolved on the way which neither Sartaj nor Manmohan mentioned. Both Pakistan and India have committed too much budgetary and other resources on military expenditure which undoubtedly act as drags on domestic investment, rapid development of infrastructure and macro-economic management. Pakistan's budget deficit is proving to be sticky and its foreign exchange reserves are under severe strain. International development institutions have been flagging the non-productive aspect of their public expenditure within certain limits. Some bilateral donors are urging yet "another layer of conditionalities pertaining to human rights" in the case of may developing countries, and some South Asian countries are also featuring in that discussion.

Foreign private investment will be greatly facilitated by pragmatic and rational resolution of these issues. It will also be interesting to watch how the recent political developments in Pakistan impact on their economic reform programme and expectations on domestic and foreign private investment.

Young Japanese less hooked on work than elders

TOKYO, Nov 23: Young Japanese are far less hooked on work than their elders, and much less inclined to stay loyal to a single employer, according to a government survey, reports Reuter.

Quoting from the nationwide poll of company employees, Tokyo newspapers said today that only 30 per cent of men and 19 per cent of women in their 20s saw work as the main purpose of life, against 48 per cent of the population as a whole.

While two out of three of those interviewed said they expected to stay in their present job until retirement, the proportion dropped steeply for young employees.

According to the survey by the Prime Minister's office, which collated responses from nearly 2,500 employees nationwide, about three-quarters of men in their 20s and 70 per cent of young women said they would change jobs if they could find more challenging employment.

Freighter with aid on way to Cuba to break US embargo

TAMPICO, Nov 23: Aging hippies, yuppies, Vietnam vets and priests from around the world on Sunday loaded a Havana-bound ship with 15 tons of wheelchairs, bicycles and Bibles, defying the US trade embargo on Cuba, reports AP.

A caravan of 44 trucks with 104 people from 25 US states and nine countries arrived in this busy Mexican port city after crossing the US border in Laredo, Texas, on Friday.

"This is the first time the US embargo against Cuba has been broken," said David Silk, a businessman from Mystic, Conn. "I've felt for a long time the embargo was not only illegal but immoral and this was a chance to break it."

The caravan of humanitarian aid, organised by the Minneapolis-based Pastors for Peace, crossed into Mexico after a scuffle with US customs officials, who tried to prevent the group from crossing because members refused to fill out export licenses.

"It was a small sacrifice compared to what Cubans are going through," said Ajumoke Tokunbo, a 29-year-old Oakland, Calif, mail carrier and student.

France will use veto right to kill farm accord

Dunkel finds no doubt about GATT deal

GENEVA, Nov 23: GATT Chief Arthur Dunkel today summoned top negotiators of the 108 Uruguay Round nations to Geneva, saying there should be no doubt that a new world trade accord was possible after 6-1/2 years of talks, reports Reuter.

Dunkel, Director-General of the General Agreements on Tariffs and Trade, called a meeting of the round's trade negotiations committee for Thursday.

In his first public comment since a Trans-Atlantic farm trade deal last week, Dunkel said: "We now have the opportunity to move into substantive negotiations based on a concrete work programme."

"This should lead to a package of results acceptable, and of benefit, to all the participants in the round," Dunkel added in a statement released by GATT.

Dunkel said: "It will require hard work and further determination at the political level if we are to reach that goal. Nobody should be in any doubt, however. It can be done."

Thursday's TNC meeting will begin at 10 am (0900 GMT).

AP from Paris adds: French Premier Pierre Beregovoy again rejected last week's farm agreement between the United States and the European Community, and implied Sunday that France would use its veto power to kill the accord in its current form.

"If the agreement needs unanimity to pass, there won't be a need for a veto because France will vote against it," Beregovoy said in a televised interview.

"If on the other hand it only need a majority and if in the end, there is no possibility other than for France to refuse, this refusal will be natural because we consider that the fundamental interests of France, of our agricultural economy, will be jeopardized," Beregovoy said.

The accord cuts subsidized EC agricultural exports by 21 per cent and reduces production of oilseeds, the main obstacle to concluding six-year-old talks on forming a new global trade framework under the General Agreement on Tariffs and Trade (GATT).

The pact must be approved by EC foreign ministers for it to be adopted, but it was unclear Sunday what format such a vote would take.

"France cannot exercise its veto except against a legal text that has been brought before the Council of Ministers," Beregovoy said, noting "we're not yet at that point."

Regardless of whether the pact needs a unanimous or majority approval by the EC ministers, Beregovoy's comments underscored France's determination at least to reach a more favourable deal through talks.

"That which was negotiated in Washington is unacceptable and will not be accepted" by France, he said. On Saturday he said he foresaw "difficult negotiations" ahead.

Foreign Minister Roland Dumas, who would be the one to cast a veto scuttling the accord if it comes to that point, warned against jumping to conclusions.

"The mistake we are making is believing that the procedure will unfold in a certain way when in fact it's playing itself out in a totally different way," Dumas said in a separate TV interview. "There is no text on which we can vote. It's after a series of negotiations that all will be put on the table and we will take a position."

If the EC foreign ministers fail to adopt the accord by Dec 5, the United States will slap 200 million dollar in penalty duties on select European farm products, mainly white wine, clearly targeting France for retaliation.

Beregovoy repeated his call for French unity across the political spectrum.

"In tough times it is important that the French close ranks, not only for French agriculture but for European agriculture and for the European economy," he said.

The premier said he hopes Parliament will pass a vote "so our European partners will realize that there is a national will that surpasses partisan divisions."

The conservative opposition, sensing an issue that has widespread popular support, has urged a quick French veto. Philippe Seguin, a leading conservative lawmaker, said on a third TV programme Sunday that "There's only one thing to do; go to Brussels and get our partners to agree to reconsider the agreement."

If not, he said, France should veto it.

Farmers account for some six per cent of the workforce, and find widespread sympathy with the French public, who have a special feeling for those who till the country's soil.

France must stand up to the United States in the dispute because that is the only way to gain Washingtons respect.

AFP from Sydney adds: France is likely to continue to fight agricultural reforms under GATT, but will do so without the support of the EC, Australia's Trade Minister said here Monday.

"The French are going to pursue the political resistance right to the death knock, but I don't think they'll be getting much support for that, certainly not in the wider international community," Foreign Affairs and Trade Minister Gareth Evans.

"All the evidence is that the rest of the European Community has also pretty well run out of patience with them," Evans told the Australian Broadcasting Corp.

"I think the only basis on which the French might be minded to really push this to the wall within the community would be with German support, but I don't think that's likely to be forthcoming at this stage," he said.

EC and US negotiators on Friday ended their differences on oilseeds that had threatened a trade war and announced agreement on a wider package of farm subsidy cuts.

The EC will cut the volume of subsidised exports under the deal for wheat and other farm commodities by 21 per cent over six years starting in 1994.

About 250 farmers shut down a Coca-Cola plant Monday in a protest against a farm agreement between the United States and the European Community, stepping up pressure on the government to veto the accord.

Police ringed the production plant at Gringny in the Essone region south of Paris as farmers burned tires on the grounds and called for an end to "American hegemony." No violence was reported. The farmers dispersed shortly before noon (1100 GMT).

Coca-Cola "is the biggest symbol of an America that wants to extend its hegemony more and more," said Herve Mortzet of the National Center for Young Farmers.

Cyriec de Salaberry, Coca-Cola's chief spokesman in Paris, said that the farmers prevented workers from entering the plant, halting production for three hours. The plant produces 20 million cases of 1.5-liter and two-litre bottles of Coke a year.

"It's too bad that the farmers have taken Coca-Cola as a symbol of the problems between France and the United States," de Salaberry said. "We have a long history here."

Clinton aide positive to budget deficit rise

NEW YORK, Nov 23: The top economic adviser to President-elect Bill Clinton said on Sunday he could not rule out a short-term rise in the government budget deficit to jump-start the US economy, reports Reuter.

"President-elect Clinton's number one campaign promise and responsibility is to get this economy moving again," said Robert Reich, economic policy director of the team planning Clinton's move to the White House on January 20.

"If it requires a little bit of deficit increase, well that's something that he (Clinton) may consider. But no decisions have been made at all," Reich said.

The federal deficit, which will be around 300 billion dollar this year, emerged as a major worry to Americans during the campaign for the November 3 presidential election.

Reich, an old friend of Clinton who spoke on CBS television's "Face the Nation," said the president-elect had not considered breaking his campaign promise of "responsible, disciplined deficit reduction over four years."

A stock broker is seen very busy after the EC realignment of community currencies in which the Spanish peseta and the Portuguese ESCUDO have been devalued.

— Star TV photo

Most OPEC states favour output cut to raise prices

VIENNA, Nov 23: Most members of the 13-nation Organisation of Petroleum Exporting Countries (OPEC) favour action by their year-end ministerial meeting here this week to curb OPEC crude oil output in order to prop up prices, reports AFP.

But Saudi Arabia and Iran, the rival Gulf heavy weights, alone hold the key to any new arrangement that would restrain pumping and remove excess supply from a glutted world market, oil industry analysts and officials of several OPEC producers said.

This week's talks "will be a Saudi-Iranian show," said Peter Bogin of Cambridge Energy Research Associates (CERA), a US consultancy.

The ministerial conference, due to formally open Wednesday after a ministerial panel session Tuesday, may decide to out OPEC's present out put by some 0.5 Million Barrels a Day (MBD) during the December-March period, according to some analysts.

But agreement will depend on "the degree of flexibility" shown by the Saudis and the Iranians, sources close to OPEC said.

Senior officials of some non-Gulf producers hold Saudi Arabia and Iran jointly responsible for a 1.70 to 2.00 dollar slide in key international crude prices over the month from mid-October to mid-November.

OPEC oil prices, as measured by a basket of seven key crudes, averaged 18.78 dollar a barrel in the second week of November, down from a mid-October peak of 19.85 dollar and well below the OPEC target of 21 dollar a barrel which earlier appeared within reach this winter.

European industry sources said overall OPEC output was running at 25.2 to 25.3 MBD in October and through the first half of November.

This was fully one MBD higher than the 24.2 MBD market share claimed by OPEC for the fourth quarter when OPEC ministers met at Geneva last September.

At the same time, European oil company officials said, demand had remained soft because of the continued economic lethargy in the west and unseasonably mild weather at the beginning of the northern winter.

Saudi Arabia and Iran "have wasted opportunities for a firming up of pries," said one key non-Gulf official — the Saudis by keeping their output at some 8.5 MBD, and the Iranians by seeking to prove they are capable of pumping 3.8 MBD.

The Saudis want to hold on to their dominant position, while Iran, which now claims a capacity of some four MBD, appears determined to restore its pre-revolution peak production capacity of some six MBD, which was sharply curtailed by its eight-year war with Iraq in the 1980s.

Analysts said Iran was in a hurry to consolidate its position as a major producer before a possible decision by the United Nations to lift the embargo imposed on oil from Iraq after the Iraqi invasion of Kuwait in August 1990.

Kuwait has now virtually restored its pre-invasion output capacity of 1.5 MBD, and has served notice that it would like to raise its output to about two MBD early next year.

Other Gulf producers, which raised their output during the Gulf crisis, are meanwhile seen to be clinging their increased market shares.

CERA's Peter Bogin said one paradoxical element in the situation was that Iran was looking for a higher oil price while it was at the same time held responsible for the recent price slide.

Algeria and some other OPEC countries believe the only way to restore OPEC credibility is to restore a formal production ceiling coupled with national quotas — the system used by OPEC throughout the 1980s.

Michael Rothman, senior energy analyst Merril Lynch Co, said he felt recent price weakness was due mainly to "market uperceptions" related to premature rumours that Iraq might soon be allowed to resume exports.

"I think prices are bottoming out," he said. "Most people in the market think OPEC has to cut production... "If they can show some sign of credibility it will help."

Realignment of EC currencies will not stem dollar's rise

NEW YORK, Nov 23: A weekend realignment of the European Community's exchange rate mechanism will not stem the recent rise in the value of the dollar, US analysts said on Sunday, reports Reuter.

The realignment, in which the Spanish peseta and the Portuguese escudo were devalued by six per cent each, was viewed as too minor to snuff out speculation of further fine-tuning of the EC grid.

"This weekend's move doesn't mean this little realignment game is over. The escudo could be devalued more," said MMS international analyst Michael Faust.