Dubai expanding trade link with S Africa

Businessmen in Dubai are developing new trading links with their counterparts in South Africa in anticipation of the lifting of remaining anti-apartheid sanctions by the international community, Foreign Minister Pik Botha has praised Dubai's "foresight."

The decision by President FW de Klerk and Nelson Mandela, of the African National Congress, to resume the democracy dialogue could not have come at a better moment. For South African companies exhibiting at the trade show in Dubai early in October the news was particularly welcome.

Political uncertainty stemming from the interruption of the power-sharing talks threatened to cast a shadow on South Africa's first trade exhibition in the Middle East. Sceptics of the De Klerk reforms called for new pressure on Pretoria, possibly through tightening sanctions again.

The exhibition, called "A New Link: South Africa and the Gulf" was held at the ultra-modern Dubai World Trade Centre and organised on behalf of the South African Foreign Trade Organisation (SAFTO). The organisers reported a scramble for a chance to break into the lucrative market of this oil-rich region.

Initially SAFTO chose a cross-section of 64 companies drawn from consumer and industrial goods sectors. Overwhelming demand forced the number of firms to more than 100 and the exhibitors agreed to share space. They included makers of foodstuffs, household appliances, furniture, industrial products and luxury leatherware, as well as several mining and engineering companies.

In due course, South African businessmen also expect to compete with other exporters in textiles, jewellery, machinery and construction equipment. Dubai merchants and other Arab traders see this as an opportunity to develop their own markets. They intend to target the whole southern Africa region for their export and re-export business.

Dubai is the second largest among the seven emirates that constitute the United Arab Emirates (UAE). The federation was formed in December 1971 when the British pulled out from East of Suez. With a population of nearly 500,000, Dubai is a thriving business centre and produces oil and gas.

The UAE population is 1.85 million, mostly foreign workers. Dubai has long been a business entrepot, importing goods from around the world and re-supplying them to the Middle East, Africa, Asia and even Europe. There is a tax-free zone at Jebel Ali village, with cheap energy and storage incentives. New markets are being explored in the Central Asian republics and now South Africa.

The Gulf and other Arab states have not formally lifted the UN-ordered economic boycott of South Africa, but business contacts have been established by the private sector with official approval. Representatives of Dubai businesses have visited Johannesburg and a South African trade mission came to the Gulf earlier this year.

A team from the Dubai Chamber of Commerce and Industry went to South Africa in June to explore business avenues and explain the investment opportunities in the Gulf. At a time when new markets are needed after the drive for reconstruction in Kuwait and Iran, the Chamber is said to be playing a leading, albeit still discreet, role in assessing what potential South Africa offers in bilateral terms.

The overriding Yes vote in the March referendum on South African reforms gave an impetus to these efforts on both sides. Virginia Kern, Director of Dubai Fairs and Exhibitions, said: "Some Gulf states, the UAE and Bahrain in particular, have been actively courting South African business in anticipation of sanctions being lifted. Several Saudi organisations are already investing quite substantially in the republic.

"All the exhibitors are new to the region and are looking for trading and joint-venture partners. As a newcomer to the region, South Africa holds out unrivalled opportunities for businessmen from the Middle East." The UAE and its five partners in the Gulf Cooperation Council — Saudi Arabia, Kuwait, Bahrain, Qatar and Oman — import most of their food and manufactured goods. They represent a vast consumer market, with imports exceeding $40 billion a year.

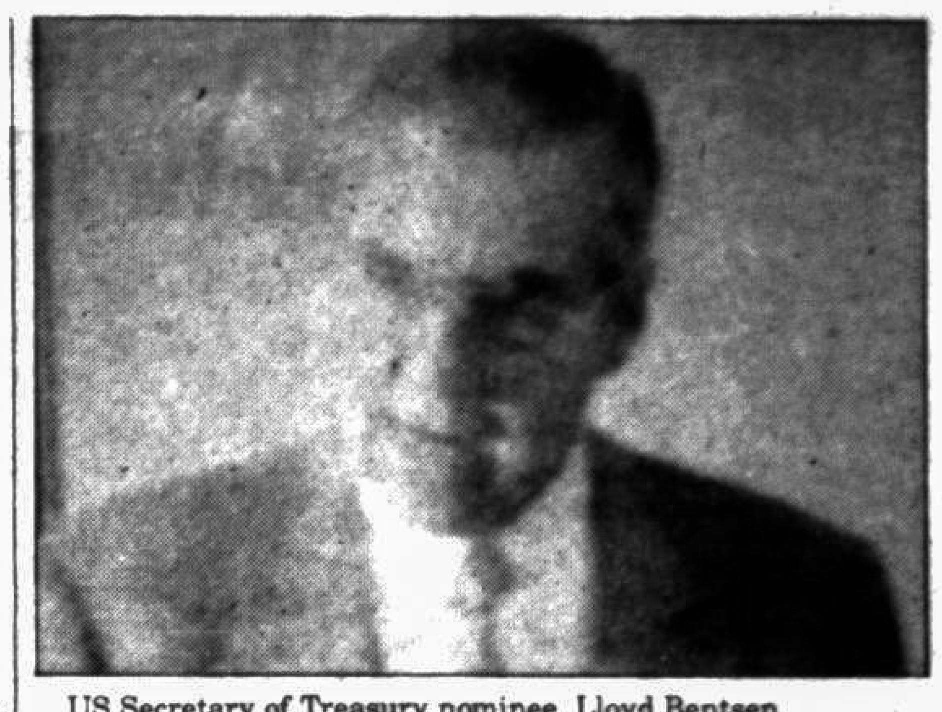
Dubai also imports large quantities of goods for re-export to other countries. Last year the total non-oil trade between Dubai and Africa (excluding Arab countries) rose by 18.1 per cent, from 407.4 million dirhams in 1990 to 481.3 dirhams.

Arab countries traded with South Africa in the late-1960s and early 1970s, after which the 21-state Arab League joined the international sanctions against the apartheid regime. The resumption of trade after a lapse of two decades will open a new outlet for Gulf oil.

Some South African companies have already decided to open their branches or appoint agents in Dubai to cover the Gulf and Middle East markets.

Prospe Cutlery, supplier to South Africa's hotel and catering industry, is looking for Arab partners to start a production plant in Duabi. Another exhibitor, Lebnor Foods, plans to build a dehydrated food processing plant in the region.

South African jeweller Miltos Voyiatzis proposes to market his latest range in the Middle East — a collection fashioned from 23.76 carat gold. A SAFTO representative said in Dubai: "While South Africa is well-known for its gold production, this exhibition will underline the country's inventiveness and state-of-the-art technology. "The Gulf offers South African businessmen an excellent launching pad for their products not only in the Middle East but for re-export to Europe and the Far East." — Gemini news



US Secretary of Treasury nominee, Lloyd Bentsen. —Star TV photo

Clinton wants Bentsen as Treasury Secy

LITTLE ROCK (Ark), Dec 6: President-elect Clinton has decided to ask Texas Senator Lloyd Bentsen, the powerful Chairman of the Senate Finance Committee, to be his Treasury Secretary, sources said Saturday, reports Reuter.

Bentsen, the Democratic vice presidential nominee in the 1988 campaign, was described as impressing Clinton with his credentials and understanding of the complexities of fiscal problems facing the United States, sources said.

"Senator Bentsen certainly is well qualified," said one source involved with Clinton's transition office. "It is hard to pick anyone else."

The Texas Senator was invited to Little Rock for talks with Clinton and has been considered the strongest candidate to fill the important post of Treasury Secretary, sources said.

Clinton made economic recovery the cornerstone of his challenge to President Bush, constantly questioning the incumbent's ability to end the nation's nagging recession.

The President-elect was expected to announce the first of his Cabinet selections next week. His choices to head his economic team were expected to be among his initial selections.

UAE joins investment body of World Bank

ABU DHABI, Dec 6: The United Arab Emirates, a major capital exporter, has joined the World Bank's investment body to protect its investments in developing countries, a UAE official said here, reports AFP.

Mohammad Kharbash, Director of Investments at the Finance and Industry Ministry, said the UAE joined the international agency for investment guarantee under an agreement signed in Washington on September 18.

Our joining this body is designed to encourage UAE investors, whether they are individuals or institutions, to invest in the third world and to protect their investments against non-commercial risks," he told AFP.

The agency was created a few years ago to protect foreign investment in developing nations against non-commercial risks, including confiscation, unrest, nationalisation and obstacles on currency transfer.

Saudi Arabia, Bahrain, Oman, Qatar and Kuwait, which along with the UAE form the Gulf Cooperation Council, had already joined the group. But their third world investments are a fraction of their assets in developed countries.

According to bankers estimates the UAE has around 55 billion dollar in overseas assets while total GCC investments abroad are put at 350 billion dollar, mostly in real-estate, stocks and bank deposit is in the west.

China to start importing cigarettes

BEIJING, Dec 6: China's 300 million smokers may soon be able to puff away at foreign tobacco as the country considers legalising imports, the China Daily said on Sunday, reports Reuter.

"We are taking steps to reform the current system for the supply and sale of tobacco and cigarettes as the country moves toward a market-oriented economy" said Li Fuchen, an official at the state tobacco monopoly administration.

The newspaper did not say when the new policy will take effect, and said China will still monopolise domestic production and levy high taxes.

Foreign tobacco has a special cachet among Chinese smokers. Anyone returning from abroad is expected to give gifts of foreign cigarettes to friends, and a carton of American cigarettes is China's most common bribe.

Foreign tobacco is so popular that cigarettes account for 60 per cent of all smuggled goods, the newspaper said.

Russia defaults on $20.6 m in loan payment to US

WASHINGTON, Dec 6: Russia defaulted on 20.6 million dollar in agricultural loan payments to the United States this week, the Agriculture Department said, reports AFP.

Russia defaulted on loans totalling 7.7 million dollar between Monday and Thursday. By late Friday, Russia missed another 12.9 million dollar in loan payments, a department spokeswoman said.

It was the second consecutive week Russia has had problems making payments. The Agriculture Department a week earlier suspended the government-guaranteed loans to Russia because of a default on a 10.9-million-dollar payment. But Moscow repaid the money as well as 405,000 dollar in arrears, and the programme was reinstated.

Some lawmakers have expressed concern about Russia's inability to pay.

"The Russians are a very big customer of grain, and if they're unable to repay, it's going to be clear they're not creditworthy, and they will not be allowed to make any purchases under the terms we've provided in the past," Nebraska Senator Bob Kerrey said Friday. "That could have an adverse impact on grain markets."

Agriculture Secretary Edward Madigan has said Russia was being treated the same as other countries in arrears. But US officials may have to choose between easing terms of repayment or cutting off the Russians.

Agriculture Department officials said discussions were continuing with Moscow and they were hopeful the situation could be resolved.

Russia, Ukraine and the former Soviet Union have borrowed some five billion dollar since January 1991 under the loan programme to buy US wheat, corn and other farm products.

Russia, which is responsible for the payments of the former Soviet Union, was the top foreign buyer of US wheat last year and the second-largest for corn.

Oil slick from tanker spreads along Spanish coast

LA CORUNA (Spain), Dec 6: A 50-square kilometer (20-square mile) slick from the Aegeansea tanker disaster had built up off the Spanish coast, according to official estimates, says AFP.

A huge-anti-pollution operation was being carried on Saturday in the Atlantic, off Spain's northwest cost as a storm grew on land over responsibility for the wreck of the Greek tanker.

Protective barriers stopped oil getting into four rivers north east of La Coruna where oysters and mussels are cultivated and salmon farmers are also a huge earner for the region, Galicia regional government officials said.

Sea fishing has been banned until December 15, but seafood production in he rivers can continue.

The officials added that 88 tonnes of crude oil had already been taken from the worst hit zones, mainly at Chanteior beach near Ferol.

Nepalese firms sign 115 jt venture projects

KATHMANDU, Dec 6: The five-day Nepal Investment Forum (NIF) concluded here after signing 115 joint venture projects between foreign investors and local firms worth 650 million US dollar, the Industry and Labour Minister said Saturday, reports AFP.

Ram Krishna Tamrakar said the projects related to the tourist industry, mushroom farming, the soybean and mineral water industries, as well as cement, paper and pulp, and hydro-electric power projects.

The largest share, 28 projects worth 223.04 million dollar, went to Indian industrialists, he said.

The second largest share, 25 projects, went to Chinese entrepreneurs, including eight hydro-electric power projects.

Other investors came from Germany, Japan, South Korea, Taiwan, Pakistan, Russia, Singapore, Austria, Italy and Hong Kong, he said.

"We had expected about 25 per cent of foreign investors...but in fact altogether over 35 per cent have concluded agreements," he said.

"The present Nepali Congress government has adopted a long term sustainable industrial policy reform, seeking an industrial base with direct and effective participation of the private sectors," he said.

"We have now created a clear and favourable environment for everyone including foreign investors with liberal open economic policy framework through mobilisation of internal and external capitals," Tamrakar said.

Asked how the government of Prime Minister Girija Prasad Koirala proposed to handle Taiwan investors in view of Nepal's non-recognition of Taiwan, Tamrakar said, "The Taiwanese industrialists have come for the joint industrial venture in Nepal."

Gulf Arabs to unify customs tariffs next yr

KUWAIT CITY, Dec 6: The Gulf Arab monarchies will unify customs tariffs next year ahead of setting up a common market, the Secretary General of the six-nation Gulf Cooperation Council (GCC) said here, reports AFP.

Abdallah Qweiz said the measure would guarantee the free movement of imported goods between the GCC states — Saudi Arabia, Kuwait, Bahrain, Qatar, Oman and the United Arab Emirates.

The European Community has conditioned a free-trade agreement with the GCC on the setting up of a unified customs system between the oil-wealthy Gulf Arab states.

Qweiz, who was addressing an Arab seminar on aluminium, did not set a date for the unification of customs tariffs. Qatar's Energy and Industry Minister Abdallah Al-Attiya has said the process would go into effect in March or April 1993.

Elsewhere, Qweiz said that GCC states wanted to increase their aluminium production which currently stands at 700,000 tonnes annually against 386,000 tonnes in 1990.

India hopes to get ADB loan worth 300m dollar

NEW DELHI, Dec 6: India is hoping to win a 300 million dollar credit line from the Asian Development Bank (ADB) to boost its financial reforms programme, the Press Trust of India (PTI) reported Sunday, writes AFP.

Negotiations to tie up the loan would take a "final shape" when ADB President K Tarumizu arrives here Thursday on a two-day visit during which he will also hold talks on project assistance, PTI said.

He will meet Prime Minister P V Narasimha Rao and Finance Minister Manmohan Singh, among others.

An Indian delegation visited Manila last month for preliminary talks on the loan, to be used mainly for beefing up the capital of nationalised banks.

The ADB, which started lending money to India in 1986, is New Delhi's third largest source of credit after the World Bank and Japan. The Manila-based bank lent 892 million dollar to India last year.

Assistance India is seeking from the agency includes 200 million dollar in the power sector, 150 million dollar for energy conservation and environment management and 285 million dollar for coal transport.

RBI sacks another banker

Another report adds: India's central bank has sacked the chairman of a regional bank a fortnight before his term was due to expire in the latest move to dismiss those who were involved in a huge securities swindle, says AFP.

Bank of Madurai Chairman S P Sabapathy described his termination, which was announced Friday, as "unfair" and "incorrect" in an interview with the Press Trust of India (PTI) on Saturday in the southern Indian city of Madras.

Sabapathy said he would appeal to the Finance Ministry to clear the stigma stemming from the dismissal ordered by the Reserve Bank of India (RBI), which also barred him from holding any management position in a bank for five years.

He, reportedly, said the bank had lost no money and accused the RBI of persecuting him for no fault of his own.

The central bank said in an announcement that it was holding him responsible for irregularities in securities transactions, saying the Bank of Madurai was trading in "abnormally" high volumes with insignificant holdings.

Japan to give India $17.6m in aid

NEW DELHI, Dec 6: Japan will give India 2.2 billion yen (17.6 million dollar) in aid for developing water resources and building deep-sea fishing vessels under an agreement signed here Friday a Japanese embassy statement said, reports AFP.

The agreement inked by Japanese Ambassador Shunji Kobayashi and Indian Economic Affairs Secretary Montek Singh Ahluwalia takes to 4.2 billion yen (33.6 million dollar) the value of Tokyo's grants to New Delhi this year, the statement said.

GEF abolishes entry fee worth $ 5.5m

ABIDJAN, Dec 6: Developing countries secured an important victory on Saturday when the world's top ecological funding agency agreed to abolish restrictive entry fees, reports Reuter.

The Global Environment Facility (GEF) decided after its meeting in Abidjan to do away with the 5.5 million dollar entry fee.

Some Third World states forced to borrow the amount from the World Bank to join said the fee was excessive and undemocratic.

GEF officials said the 5.5 million was their calculation of the fce at current dollar.

"The question was whether there should be a minimum entry fee for members. The consensus was that no membership fee should be involved," GEF Chairman Mohammed el-Ashry told reporters.

Hills scarps US trade sanctions

WASHINGTON, Dec 6: US Trade Representative Carla Hills Friday scrapped trade sanctions that would have gone into effect today if the United States and the European Community had failed to reach a farm subsidy agreement, reports AFP.

The sanctions — 200 per cent tariffs on 300 million dollars worth of European farm goods, mainly white wine — were announced November 5 after the collapse of US-EC talks on cutting European farm subsidies.

An agreement was finally reached in Washington November 20, and the final details were nailed down Thursday in Brussels.

The agreement is opposed by France, the EC's largest agricultural producer and exporter and which has a powerful farm lobby.

G7 won't sell few items to four states

TOKYO, Dec 6: Japan, the United States and other industrialised countries would refuse sales of civilian goods that could be converted to military use to Iran, Iraq, North Korea and Libya, the Kyodo news agency reported on Saturday, says Reuter.

The Group of Seven nations, which also includes Britain, France, Germany, Italy and Canada, agreed to stop sales of machine tools, some electrical products, lasers and other controversial goods to the four countries starting next March or April, Kyodo said.

Quoting government sources, Kyodo said the decision came at a working group meeting of the G7 held in Bonn on November 20.

NEW YORK: After Clinton's decision to make Lloyd Bentsen, Chairman of Senate Finance Committee, the Wall Street has become busy. —Star TV photo

INVITATION TO A DIALOGUE

Public sector, private sector fundamentally different

Syed S Kaiser Kabir

It is our god fortune that an academic of the standing of Professor Rehman Sobhan has moved away from taking a purely adversarial position on the concept of private ownership to assuming a positive and constructive role. True, the Professor by his own admission has not become a convert to free market principles, but in a sense, that does not matter.

What is relevant is that Professor Sobhan, through his recent contributions in The Daily Star has demonstrated that his understanding of market economies is far superior than what his critics have given him credit for.

Professor Sobhan has made several noteworthy points in his two-part article "The Public and Private Sectors: Two Sides of Same Coin" (DS Nov 22 & 23). I would like to discuss two of those points.

These are: (i) There is little difference between a public and private enterprise, and that if the operational environment is right, even public firms can do well; and (ii) Better governance is essential for industry to succeed.

Ownership

I do not agree with the proposition that there is little difference between a private and a public enterprise, and that given the correct environment both enterprises can do well. Professor Sobhan contends that, "when we get down to basics, a public enterprise is just another institution, with a building, some machines, managers and workers in the same way as a private sector". In my opinion the similarity ends there. Private firms tend to be maximisers of profits. Public firms have more complex objectives, which incorporate political and distributional ends — often in conflict with one another. This fundamental difference between the objectives of private and public enterprises has profound implications on economic efficiency. The arguments are well known and there is no need for their regurgitation in this brief article.

I would venture, however, to suggest that Professor Sobhan is indulging in pure utopia when he claims that appropriate policies would improve the health of the public enterprises. The issue is not whether good policies can be used to improve the public sector, the point is whether good policies for the public sector can be introduced at all. It is extremely difficult to introduce the "carrot and stick" approach, which is essential for good management, on a wide scale, in public enterprises anywhere in the world. The case of Bangladesh is no different.

To introduce the "carrot", for example, in BTMC mills would mean inter alia, performance related pay in line with that of in the private sector. Imagine, a spinning master at a BTMC mill earning Tk 60,000 a month, while the earnings of a senior civil servant being only a third of that. The political uproar would be debilitating for most governments. Similarly, to introduce the "stick in the government textile mills would imply among other things, that about a third of the work-force would have to be laid-off in the interests of economic efficiency. No government since 1972 has had the courage to take such a bold step.

The point is that to make the public sector efficient, there must be a complete overhauling in the way governments have traditionally functioned in Bangladesh. While, this may be a long-run goal, the fundamental nature of government will not change in the foreseeable future. We must look for more realistic and plausible solutions.

It must therefore be a goal to eventually privatise all the government enterprises. Some industries are easier to privatise than others. For example, on the one hand, BTMC can readily be privatised because the competitive nature of the market ensures consumer welfare. On the other hand, the privatisation of a natural monopoly such as power transmission, or for that matter any monopoly must be accompanied by a complex set of regulations. The details can be worked out later and it is not necessary to address them in this article.

Privatisation will however not automatically improve the fortunes of the mills as Professor Sobhan has rightly said. However, the relevant point is that the divestiture of the public enterprises would eliminate the burden on the national exchequer and the nationalised commercial banks which have been financing their losses. The freed funds could then be used for investment in health, education, and physical infrastructure.

There is another compelling reason for divesting the public enterprises. Many of the jute and textile mills have been kept alive through transfusions of public funds on a regular basis. Apart from being a drain on the treasury, these transfusions cause sickness among healthy firms. The reason is that the artificially sustained public firms continue to produce output instead of closing down, and this excess output dampens the market price, forcing all other firms to lower their prices.

Private firms tend to be maximisers of profits. Public firms have more complex objectives, which incorporate political and distributional ends — often in conflict with one another. This fundamental difference between the objectives of private and public enterprises has profound implications on economic efficiency.

In competitive markets, where profit margins are low, this dampening effect on prices can cause healthy firms to experience cash-flow problems. Thus for example, some loss making BTMC mills which by and large produce inferior quality yarn, are causing problems for some private spinning mills which are competing in that quality niche of the market. If the loss making BTMC were justifiably closed down, the private mills could get a bigger share of the market and improve their profit position. Perhaps cotton textiles could be a more vibrant industrial sector in the absence of the loss-making BTMC mills. (Of course some private mills have been kept alive artificially as well, I deal with this issue later).

Before moving to the second issue, i.e., of governance, I must make a brief detour. I was horrified at Professor Sobhan's insinuation that there is no conceptual difference between a government hospital or school and public enterprises such as those in BTMC. True, all of the above are publicly owned, but that does not mean that building a case against BTMC must imply that one is also opposed to government hospitals and zilla schools.

There is a very good reason for government participation in fields such as health and education. Consider education: every child who learns the three Rs, confers a benefit not only upon itself, but on the community as a whole. Yet, private pricing of education, which is likely to be based only on a mark-up over costs would ignore the benefits to the community. Consequently education under complete private ownership would become too dear for many to the detriment of the nation. For this reason free or subsidised government schools are to be welcomed.

The same line of reasoning may be applied in support for government participation in health. On the other hand, no such case can be made for say, the BTMC mills. It is not necessary to have BTMC mills in order to get good quality yarn at low prices. Private participation in a competitive market can ensure that. Consequently, it does not seem to be a tenable position that if one supports government hospitals and schools, one must also be sympathetic towards the public enterprises.

Governance

I now turn to the second issue, i.e., that of good governance and industrial efficiency. I will relate the issue for the private sector only. Having outlined my views on the public sector, this restriction of the discussion to include only private firms is perhaps self-evident.

It is clear that private ownership does not automatically guarantee economic efficiency. The evidence provided by Professor Sobhan that over fifty per cent of the denationalised firms have closed down is a case in point. Of course, some of these closures may be indicative of sound business decisions, other closures may have nothing to do with the competence of the entrepreneurs. However, this is not the place to quibble about economic or statistical methodology. The point made by Professor Sobhan is well taken. (Concluding part tomorrow)

The writer works as an economist in the Financial Sector Reform Project (FSRP), Bangladesh Bank.

The views expressed in this paper do not necessarily represent those of FSRP.