IMF sees lower economic growth

WASHINGTON, Dec 9: The International Momentary Fund (IMF) is set to slash its forecast of world economic growth next year as hopes for solid recoveries in Europe and Japan fade, International Monetary sources said here. The sources, speaking by telephone from Washington, said that currency turmoil and high interest rates are holding back growth in Europe while Japan's economy is hobbled by declining corporate investment and growing bad debts at Japanese banks, reports

Reuter. Russia to raise price of gas in '93

MOSCOW, Dec 9: Russia plans to raise its regulated price of natural gas but hold the line on oil next year in a plan to cut inflation and boost industrial production, Acting Prime Minister Yegor Gaidar said Tuesday. The architect of Russia's market reforms made the prediction to the Congress of People's Deputies, whose hard-line majority is trying to remove him and roll back the policies which they say are impoverishing Russia, says AP.

> Malaysia's GNP may fall in '93

KUALA LUMPUR, Dec 9: Malaysia's economic growth is expected to slow to 7.5 per cent next year as it grapples with the adverse effects of five years of rapid expansion and declining foreign investment, economists said Tuesday. "Direct foreign' investment, which has spurred growth in the past five years, is anticipated to tape off amid the global economic decline and rising competition for dwindling capital," said Kamal Salth, Executive Director of the Malaysian Institute of Economic Research (MIER). an independent think-tank, reports AFP.

Dollar ends mixed gold falls in NY

NEW YORK, Dec 9: The US dollar ended narrowly mixed Tuesday in light trading as the currency markets awaited an upcoming meet ing of Germany's central bank. Gold prices fell, reports

BOMBAY, Dec 9: India's prospects of attracting badly-needed foreign investment to back its economic reforms are likely to be undermined by the latest Hindu-Muslim clashes. bankers and businessmen said here, reports Reuter.

But officials discounted fears that India's oil supplies. may be threatened because of retaliation by Islamic off-producing states.

Oil industry sources said they doubted Middle Eastern countries would try to cut off or limit oil supplies to India in revenge for the destruction of a north Indian Mosque by Hindu militants.

"It's a buyer's market," said a senior official in India's petroleum ministry. "Any cutback in supplies will hit the

BRUSSELS, Dec 9: Pros-

pects that the European Co-

mmunity can salvage its

Maastricht union treaty and

avoid a crisis of confidence

remain uncertain ahead of an

EC summit at the weekend,

diplomats said here today, says

said Luxembourg Foreign

Minister Jacques Poos during a

two-day meeting of foreign

ministers here on Monday and

Tuesday to debate problems

that will be discussed in the

"We're on a razor's edge,"

India has term contracts of five million tonnes of crude from Saudi Arabia, four million tonnes from Kuwait and three million tonnes from Iran, as well as smaller quantities from some other Gulf suppliers, industry sources said.

Iranian Foreign Minister Ali Akbar Velayati on Monday summoned the Indian Ambassador in Tehran to condemn the demolition of a 16th century mosque by Hindu fanatics in Ayodhya.

Businessmen and bankers said one of the biggest casualties from the latest bloody Hindu-Muslim clashes across the country could be the confidence of overseas investors.

Ratan Tata, chairman of India's leading business house,

BONN: A farmer feels strangled by the deal between the EC and the US on cuts in

agriculture subsidies during a farmer's protest in Bonn Dec 8. Tens of thousands protestors

jammed the centre of Bonn with tractors seeking to hike pressure on the European

Community and the German government only three days before the Edinburgh

Future of Maastricht Treaty

remains uncertain

The remark was echoed by

other ministers and officials to

describe the focus of the meet-

ing - efforts to overcome

Denmark's objections to the

Maastricht Treaty for eco-

well for a string of related is-

summit in Edinburgh,

Scotland, on Friday and

Saturday -- particularly a quar-

Various ministers reported

rel over budgets and money.

sues on the agenda of the

But it could be used just as

nomic and political union.

the Tata group, said the communal riots would have a bad impact on the business cli-

Communal clashes to discourage

foreign investment in India

The world is going to look at India as an unstable country and the efforts that have been to globalise India will be shattered," he said.

At least 220 people have died and hundreds more have been injured in Hindu-Muslim clashes across the country following the weekend destruction of a disputed mosque.

"Foreign multinationals may have found yet another excuse to stay away from India," said Ajit Dayal, financial analyst with Jardine fleming affiliate quantum financial services.

India has been trying to attract foreign capital to help underpin its bold programme

- AFP/UNB photo

progress in finding a way to

give Denmark opt-outs from

key elements of the treaty, in

order to keep the Danes

signed up after they rejected

the treaty in a referendum in

There was broad support

for a British proposal that the

summit should issue a formal

decision exempting Denmark

from the treaty's provisions for

a single currency, common

foreign and security policies

and common citizenship.

of economic reforms launched by Prime Minister P V Narasimha Rao in mid 1991.

- Business

Finance Minister Manmohan Singh, architect of the liberalisation process, has said India has secured 1.4 billion in foreign investment proposals over the past 16 months.

Economists said many of these proposals would now be delayed or put on hold.

Repeated closures of the stock market have also deterred foreign investors despite the opening of India's 22 exchanged to overseas institutional investors in September.

. Bankers and businessmen said they were worried that the riots would weaken the government and delay further economic reforms.

Farmers protest in Bonn to scrap US-EC farm deal

BONN, Dec 9: Tens of thousands of angry farmers on Tuesday hiked pressure on Chancellor Helmut Kohl three days before the European Community summit, jamming Bonn with tractors and blockading ministries with blazing straw bales and truckloads of sugar beet, reports

The protest, aimed at forcing the EC to scrap the subsidy-cutting deal arduously negotiated with the United States, was one of the biggest displays of muscle by Germany's farming lobby.

But unlike the rallies held in Paris and Strasbourg last month, there were no reports of violence or arrests and many protestors chose to vent their wrath on their representatives, accusing them of having "sold out" to Kohl.

At least 20,000 people took part, journalists estimated, while the president of the German Federation of Farmers (DBV), Constantin von Heereman claimed more than 50,000 making it a record turnout.

A rattling, crawling procession of 600 tractors, clogged the city centre, sending civil servants and housewives into parexysms of frustration behind their steering wheels.

China facing crisis to fund farmers

BEIJING, Dec 9: The cashstrapped Chinese government is facing a rural crisis because it cannot pay cash for grain, causing growing discontent among the country's 900 million farmers, an official newspaper said Tuesday, reports

The State has been handing out IOUs to farmers in many areas since the late 1980s, but this year would be the worst year on record, the China Daily

"Some farmers and government departments have started calling 1992 the worst year yet," the paper said. "This has greatly disturbed farmers in many areas."

By the end of October, state grain purchasing agents had only 17 per cent of the 60.5 billion yuan (11 billion dollar) needed to meet goals for the autumn harvest, which accounts for about two-thirds of the annual target.

To ensure the grain target is fulfilled, the people's Bank of China, the Central Bank, has decided to allocate 35 billion yuan (6.4 billion dollar) in emergency short-term loans.

Belgium supports France on EC-US farm deal

BRUSSELS, Dec 9: Belgium threw its weight behind France Tuesday in criticizing last month's EC-US farm agreement and demanded extra concessions for farmers before the European Community could back the deal, reports

Prime Minister Jean-Luc Dehaene also criticized EC negotiators for being clumsy in negotiating the deal and said they goofed making a deal on farming while ignoring the 14 other areas in the world trade

This deal is not at all a fait accompli," Dehaene said in an interview with the Dutch newspaper De Volkskrant.

He agreed with Paris that the transatlantic deal on EC farm subsidy cuts will require sacrifices from its farmers beyond limits set in last spring during a reform of the EC's Common Agricultural Policy. EC negotiators have denied

France is threatening to veto the deal, which would scuttle any world trade deal between the 108 nations of the General Agreement on Tariffs and Trade in the process.

But with Belgian support and backing from a few other recalcitrant EC states, it could be enough to muster a blocking minority in the EC's complicated voting procedures.

Spain, Italy, Ireland and Denmark have also partly criti-

cized the deal. To get Belgian backing. Dehaene said, 'there will have to be compensations in general and for the farmers in particu-

Dehaene also lashed out at EC Commissioners Frans Andriessen, the EC's top negotiator, and Ray MacSharry, the farm negotiator, for conceding a deal now without have a full GATT deal.

A GATT deal can only be reached it there is agreement in all 15 areas under negotiation, ranging from farming to banking, services, market access and textiles.

The Commission made an enormous blunder by agreeing to a deal on farming without knowing the outcome of the whole (talks)," Dehaene said. Tactically and strategically

it is an enormous error," he

AFTA may not derail open, multilateral trade

KUALA LUMPUR, Dec 9: A proposed free trade zone among six South East Asian Nations is unlikely to derail the region's open and multilateral trade, economists said, reports Reuter.

"Intra-ASEAN trade, no

doubt, will grow in absolute terms under the AFTA, but it is unlikely to assume increased importance in relative terms, Mohammed Ariff, an economist at the University of Malaya, said at an economic conference.

"Open, multi-lateral trade has brought much prosperity to ASEAN countries," he said. It is unlikely that AFTA will bring about a reorientation of the ASEAN economies. Their most localities markets clearly

lie outside the region." The Association of South East Asian Nations (ASEAN) groups Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand, the group's leaders agreed last January to create an ASEAN

Free Trade Area (AFTA) cut-

ting tariffs on 15 major groups. Of products and raw materials to a maximum, five per gent within 15 years. The first

cuts are due to take effect next Mohammad said it was unlikely that the ratio of intra-regional to total trade would ever

ASEAN country. He said it would not be in the interest of ASEAN to raise its inter-regional trade at the expense of extra-regional trade.

exceed 30 per cent for any

Intra-ASEAN trade formed about 17 per cent the region's total trade in 1990, Mohammed said.

He said ASEAN needs AFTA not to raise the share of intraregional trade but to make its

products competitive globally. Malaysia's Deputy Finance Minister Abdul Ghani Othman told the conference than ASEAN should speed up the AFTA implementation in view of what he called the growing protectionist trends in North America and Europe.

Debt repayment limits will lead Manila to anarchy MANILA, Dec 9: The

Philippines will suffer fourdigit inflation, lose foreign aid and see its economy thrown into anarchy if the government unilaterally limits foreign debt repayments, the finance secretary said Wednesday, reports

"The debt cap strategy is a very risky strategy and the experience of countries who have used the debt cap in the past has shown that not only is it risky but in their particular cases, it has resulted in economic anarchy for their countries," Finance Secretary Ramon del Rosario said in a broadcast interview.

Congressional debates onseveral proposed measures to limit debt service payments have been scheduled for next

"The assurance I will give is that if we impose a debt cap moriey will stop coming in! del Rosario said.

INVITATION TO A DIALOGUE

Policies of desubsidisation: penalising our productive farmers

The productive small farmer

One of the best and least noticed examples of efficient private enterprise in Bangladesh is the productivity of our farmers and particularly the small farmers. Land farmed in households cultivating units of less than 2 1/2 acres account for 64 per cent of land under cultivation. Our farmers have, since the liberation of Bangladesh and this current crop year, nearly doubled food grain production giving us an additional 10 million tons of rice and wheat. This output has enabled us to feed the additional 35 million people added to our population between 1971 and 1992 without increasing food imports. Had this additional 10 million tons not been produced in Bangladesh, in 1990-91, we would have had to spend \$3.4 billion in foreign exchange to import an equivalent amount of foodgrains from the international market, instead of the \$330 million we actually spent on import (including food aid and cash imports) in that same year.

This increase in farm output has largely come from increases in the productivity of our existing land due to the spread of irrigation, the use of improved high yield variety (HYV) seeds and increases in the application of chemical fertilisers. This process has been aided by the role of the government, since the end of the 1950's, which adapted and disseminated the new HYV known as IRRI from seed varieties developed in the International Rice Research Institute in the Philippines, invested in gravity irrigation facilities, tubewell and pump irrigation and production of chemical fertilisers. It provided irrigation and fertiliser at highly subsidised prices through the 1960's and 1970's which encouraged the farmers to take the risk of adapting to the new HYVs. By the end of the 1970's the farmers had assimilated the new technology and were raising their own labour productivity to get improved returns from the adoption of the HYVs.

The small farmers were driven to adopt HYVs not so much by the market but the compulsion to survive under conditions of increasingly severe population pressure on a finite amount of cultivable land. The market has, if anything proved to be a disincentive to higher productivity by farmers because the price of foodgrains has increased much less slowly than the cost of purchased inputs such as fertiliser. To give a simple example, in January 1982 the price of a 50 kg bag of fertilizer was Tk 183 compared to Tk 256 this year. A 50 kg bag of TSP in 1982 cost Tk 167, today it costs Tk 338. In contrast in the same period the price of paddy rose from Tk 190 per maund in 1981 to Tk 250 in 1990-91. In fact as a result of the bumper aman crop this year we are hearing that paddy prices have gone down to Tk 120 per maund in parts of North Bengal though the average may be close to Tk 160.

It thus appears that the farmers of Bangladesh, operating under adverse market conditions, have continued to do their duty to their families and beyond that to the country. Given their role in import substituting food grains and the fact that they also produce what is still our largest export item, raw jute for export and use as the principal input in our export of jute goods, the small farmers of Bangladesh are far and away the principal foreign exchange earners in the Bangladesh economy.

Donor pressures for desubsidisation

But what have we done to reward the enterprise, hard work and productivity of our poor farmers? In the last 10 years, through a series of price increases the GOB has completely eliminated the subsidy on the sale of Fertiliser and the price of irrigation water from tubewells.

The move by the government to remove subsidies on fertilizer and to sell of irrigation equipment owned by BADC has emerged out of sustained pressure from the World Bank since the end of the 1970's and more recently by the Asian Development Bank, who have imposed these as categorical

conditions attached to particular loans offered to the Government of Bangladesh. The Asian Development Bank concluded the Food Crop Sector Loan (FCSL) with the GOB in 1988/89 which committed the government to completely eliminate all subsidies on fertiliser sales and to sell off all stocks of irrigation equipment held by BADC. Both measures were to be completed within 1990. Whilst subsidies on urea sales have been completely eliminated, the government only managed to completely eliminate subsidies on MP and TSP within the last year. The GOB has still not managed to liquidate its stocks of irrigation equipment. The dates for meeting the GOB's obligations to ADB under the FCSL thus periodically had to be extended which has generated some friction be-

tween the GOB and the donors. The World Bank has consistently argued that fertilizer and irrigation subsidies are a cost on the budget and that the GOB should reduce public expenditures by, inter alia, reducing subsidies. Money saved from reduced subsidies could thus be spent on other investments in agriculture. The need to re-

Rehman Sobhan, Star Guest Columnist

on agricultural inputs in the Bangladesh context makes little economic sense, is politically insensitive and morally questionable. It defies economic commonsense because our farmers remain one of the most productive segments of the population. Commonsense economic would have suggested that if this class of producers have demonstrated their efficiency then they should be both rewarded and stimulated to produce more, not punished for this is the knowledge that however much prices of inputs are raised farmers will, out of the need

survive, go on buying such inputs. Subsidy costs are in fact a charge on the national budget. Subsidies on fertiliser which peaked at around Tk 134 crore in 1979/80 were reduced to Tk 36 crore by 1985/86 and has by this financial year been eliminated. This reduction was in effect paid for largely by the small farmers who absorbed virtually the entire cost of this desubsidisation by paying higher prices for fertiliser. However, total public expenditures (TPE) in this same period 1980-91 rose from Tk 4,301 crore to Tk 13,780 crore, a three fold increase. Current expenditures on

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duce current public expenditures is unexceptionable. Nor should there be any quarrel with the item that subsidies breed inefficiency and on occasion, inequity, if it accrues to the better off classes. The issue is one of timing, extent and the need to situate the issue of subsidy expenditures within the wider context of total public expenditure.

The desubsidisation of agricultural inputs has, in Bangladesh, impacted most severely on our small farmers for whom it has become a form of tax. This is contrary to World Bank and indeed some academic opinion that bigger farmers are the principal beneficiaries of input subsidies. Research evidence shows that the small farmers (below three acres) consume up to two-thirds of all urea sold. The rise in fertiliser prices has thus raised their cost of production and reduced the rate of profit earned from the cultivation of grain. This rise in costs has not led to a fall in fertiliser General Services, covering general administration, justice and police and defense rose in this same period by Tk 2000 crore whilst Tk 134 crore of subsidy to poor farmers which comes to less than one per cent of TPE was being rapidly eliminated. In all, between 1980-91, TPE rose by Tk 9,481 crores and of this total, current or non-development expenditure, rose by Tk 5,460 crores. Could it be argued that the money saved on fertiliser subsidies was more efficiently spent under heads of

Economic commonsense would have told us that unless we have a more productive use for the money spent on fertiliser subsidies we should not withdraw it. After all the beneficiaries of the subsidy have provided Bangladesh with 10 million additional tons of foodgrain and could produce even more with a reduction in their cost of production. How many heads of ex-

The desubsidisation of agricultural inputs has, in Bangladesh, impacted most severely on our small farmers for whom it has become a form of tax. This is contrary to World Bank and indeed some academic opinion that bigger farmers are the principal beneficiaries of input subsidies. Research evidence shows that the small farmers (below three acres) consume up to two-thirds of all urea sold. The rise in fertiliser prices has thus raised their cost of production and reduced the rate of profit earned from the cultivation of grain.

consumption but persuaded farmers to buy less fertiliser than they need and this in turn has meant that they produce less grain than they would have had input prices been lower, which is a production loss to the country. I have no current econometric estimates of the potential grain production lost due to higher input prices, but an earlier study of Dr Mahabub Hossain estimated that the 30 per cent rise in fertiliser prices in 1983/84 led, through lower fertiliser offtake, to a possible production loss of around 300,000 tons. It could thus be argued that had fertiliser prices today been kept at levels prevailing 10 years ago we could have today produced a million tons more of grain.

The political economy of desubsidisation

I have myself for many years argued that lifting subsidies

the additional expenditure of Tk 9,481 crore?

penditure, where we spent Tk 13,780 crore in the total bud-

get in 1990-91 produced any comparable output in the way that a fertiliser subsidy does? The government and indeed the donors are fully aware of the enormous wastage, with low to negative productivity, involved in virtually all items of current expenditure and indeed in the annual development expenditure of Tk 5,200 crore (1990/91) which carries a great

deal of superfluous expenditure.

Economic sense would demand that subsidies on both fertiliser and sale of irrigation equipment be restored. Even today, in spite of high prices, the increase in fertiliser consumption and the irrigated area has been impressive. But an investment of around Tk 300 crores, allowing for higher costs and usages, as agricultural subsidy, would further accelerate the diffusion of HYV through enhanced fertiliser consumption and spread of irrigation. This Tk 300 erore, spent

on input subsidies which comes to about two per cent of TPE, could be compensated by cuts in the enormous quantity of waste which runs through most of the Tk 13,000 crore of to-

tal public expenditure. The restoration of subsidies would make political sense because our farmers are the democratic majority of the population. The majority of the population derive their livelihood from cultivation. To tax this class, whilst we waste public resources on a large and not very productive administrative establishment, subsidies non-performing public and private industries and write off and condone debt liabilities running up to Tk 10,000 crore for at best 2000 or 3000 families, is a politically untenable situation in a democracy. I am not aware when and how the government and elected representatives of our Jatiyo Sangsad have explained this extraordinary misallocation of public resources to the majorities of their electorate who are the victims of this misallocation.

Finally, desubsidisation must be seen as morally untenable. Any society which taxes the poorest but also the most productive segment of their population, living exposed to the vagaries of nature and the market, denied education, adequate health care, who work long hours - husband, wife and children - to barely keep alive whilst a small proportion of the population prosper from government patronage and a gross misallocation of public resources, puts itself outside the pale of humanity. Good governance is about restoring a sense of justice, as much as about promoting production. A society whose policies are both unjust and inefficient, has much to answer for both to their citizens and to their conscience. This applies as much to their intellectual mentors from the multilateral agencies who presumably also have consciences and also have to explain the illogic of their advice to their constituencies in the developed world, who vote funds to these institutions in the belief that they are helping the poor of the developing world.

Our discussion has concentrated on subsidies as they impact on farmers. In practice many other subsidies, both disguised and registered in the budget, are in place covering everything from food, power, gas, DFI loans, government land, public education, health services and loss making public and private enterprises. All involve a cost to the budget. There is no rationality in the decision, need, extent or target for those subsidies. Each such subsidy merits discussion as I have undertaken for farm inputs. This discussion however has to initially address the wider question of the allocative priorities of total public expenditure before it discusses the merits of a specific subsidy.

A national dialogue which involves policymakers, political

opposition, professionals, donors, beneficiaries and the victims of subsidies is urgently required. We need to discuss the logic of determining public expenditure priorities. Why we prefer one sector compared to another, why we get such low returns from public expenditure, whether we can priorities expenditure on the basis of its efficiency, which social classes benefit from public expenditure, how important are subsidies in public expenditure and do they reflect any rational basis of prioritisation, why are farmers singled out as targets of desubsidisation, are there more efficient uses of the funds withdrawn from farm subsidies, who amongst farmers bear the burden of subsidies, is this leading to production loss and impoverishment of small farmers, what gains can we expect from restoration of subsidies, can we pay for this by savings in other sectors, are they any related inefficiencies in subsidy policy which may injure agriculture, how should subsidies be given, targeted and administered to ensure cost effectiveness and distributional justice, how to deal with donors, if they resist subsidy policies. The sooner this dialogue gets underway as a prelude to a review of policy on input subsidies to our farmers, the better it will be for our farmers, the economy and our democratic process.