Dhaka, Sunday, August 1,1993

The Change in Japan

The stage seems virtually set for the seven-party opposition coalition to form the next government in Japan, under the prime ministership of Morihiro Hosokawa, a populist conservative leader. His selection is due to be formally approved at a special session of the parliament within this week, marking the end of nearly four decades of unchallenged rule by the Liberal Democratic Party (LDP).

For a conservative country like Japan, with no experience of practising a two-party system, the change is a dramatic one. However, Hosokawa, the founder-leader of the Japan New Party, who quit the LDP 14 months ago on the reform issue has much going for him. Being only 53 in a country where most politicians, power-brokers and prime ministers have been ageing ones, he would have a strong appeal for the new generation which had been alienated by the LDP-dominated system. Again, apparently untainted by any suggestion of corruption or connection with influence-peddling lobbies, his commitment to reforms of the political system, especially the electoral one, remains above doubt.

These positive traits notwithstanding, there already exist some doubts about Hosokawa's experience in many different fields of administration, especially foreign affairs. Having gained much of his administrative experience as the governor of Kumamoto, an affluent prefecture in the island Kyushu, some may well see him as a Bill Clinton of Japan, unused to the mainstream politics. On the other hand, articulate to the point of being blunt, he once hailed the reformist zeal of Mikhail Gorbachev, the Russian leader, for his drive against the status quo in the former Soviet Union. Again, there are also a few awkward questions about his family ancestry -he is the son of a warlord - especially about his maternal grandfather. Fumimaro Konoe, a former Prime Minister during the early forties. There is still a debate going on in Tokyo if Konoe was responsible for planning the Japanese invasion of China and later supporting the attack on the Pearl Harbour.

If these questions assume serious proportions here, much depends on the LDP strategy - the seven party alliance can indeed come under severe strains. The danger of the coalition falling apart cannot, therefore, be ruled out.

However, there are good chances that all efforts will be made, even by moderate section of LDP, to ensure stability of the government. All the indications from circles close to the coalition suggest that the Hosokawa and the former Finance Minister, Tsutomu Hata who may well be the second most important member of the cabinet, are for continuity of policies, in fields which particularly matter to the allies of Japan, especially the United States. Again the issues where new administration may like to make changes, such as opening up the economy, greater support to the consumers, the improvement in living conditions of the average Japanese and a pronounced active role in international affairs. would be popular at home and, to a great extent, with the United States. However, within the framework of continuity of policies, the new government cannot go too far in helping the Clinton administration in reducing the balance of trade with Japan by maintaining a strong yen. The general feeling in Tokyo is that in competing with such Asian countries as Singapore, Taiwan, Malaysia and other NICs in foreign trade, the government must grad-

If the new administration can promote a consensus on these issues and maintain a good working relationship with Washington, there are no reasons why the country's powerful industrial houses, looking for markets abroad and joint ventures, will not go along with the new coalition government Some of them may even come to believe, as we do, that a cleaner, a more accountable and a transparent administration than the outgoing one will be

ually let its currency find a new level.

good for Japan.

JU Imbroglio

Jahangirnagar University campus is once again in convulsion. On Thursday last the confrontation was not between student groups but alas between the Jatiyatabadi Chhatra Dal, the student wing of the ruling BNP, and the teachers, in which the teachers naturally were on the receiving end. It is not the first time that the JCD workers, now controlling the Jahangirnagar University Central Students' Union (JUCSU), turned violent and pitted their raw power and political might against the teachers' disciplinary strength. On a previous occasion they forced the Syndicate to rescind the expulsion order on two of their activists. But this time they have allegedly gone as far as to assault a number of teachers at the time of voting for the Syndicate and Finance Committee elections.

The trouble once again erupted on the question of the expulsion of yet another JCD worker who was a member of the Syndicate. Until now only the Islami Chhatra Shibir has been known to be crossing the unseen barrier and assaulting the teachers it considers its opponents. This latest rampage by the JCD on the JU campus is a new addition to our student politics. The ransacking of teachers' rooms, breaking of furniture and damaging of other university properties have taken place elsewhere in the past but never before were the teachers made the target of attack, except on Chittagong University and Islami University campuses, by other mainstream student groups. This option for aggression, let us hope, may not just be the beginning of a long and loathsome process.

Sure enough, the teachers may have lost enough of the touch with the students - a vital element that ensures a congenial academic atmosphere But when the ruling party itself indulges in pampering its student cadres - as it did during the earlier trouble in the same university when ministers mediated a compromise between teachers who stood for discipline, and enraged JCD cadres who were adamant to reinstate their expelled comrades no matter if they were offenders - the studentteacher relations are bound to plunge beyond recovery. A pampered child is a spoiled one too. With such records to its credit, the government hardly has the moral right to declare it is bent on keeping the campus free from terrorism. The ruling party will be true to its protestation if it brings the culprits to book and punish them for the deplorable incident. Only then it will earn the right to strike the dead blow to the monster now showing its ugly head.

The Foreign Hand Guiding India's Economy

Ashok Mitra writes from New Delhi True, without some strong signal of support from the government and the political leadership, public funds could not have been plundered on such a gigantic scale, and through such blatant disregard of standing rules and instructions.

weeks claimed the singleminded attention as much of the public as of the Joint Parliamentary changes. It is they who tempted Committee investigating the other banks and financial instiwidespread misuse of public tutions to join with them in illemoney in stock market gal and irregular activities offer operations which rocked the ing prospects of high rates of recountry last year. In the cirturn over the very short run. cumstances, there is a danger They demonstrated for the benof under-emphasising the role efit of others how to flout RBI of some of the other major acguidelines with respect to port tive participants in that sordid folio management and illegitidrama. When news of the scanmately extend credit for propdal broke, the Reserve Bank of ping up share market transac india had hastily formed a tions. The Reserve Bank has on committee to find out how and paper standing instructions where things went wrong. This which prohibit certain portlocommittee's labours perhaps lios, especially bonds floated by illustrate the adage of bolting public sector undertakings. the door after the horse has from being used, before the exflown. Its enquiries did not piry of a stipulated period, as quite cover the ground the JPC collateral for advances. The foris currently pursuing: certainly eign banks themselves ignored it could not incriminate the this RBI injunction about such Reserve Bank of India which 'lock-in' periods, and encourhad set it up in the first place. aged the other banks to do the But it has at least unearthed a same. They were also instrunumber of crucial facts on the mental in placing large sums of ramifications of the financial money with a select band of scandal that has done such brokers by indiscriminate use of havoc to India's political sysbanker's receipts, including forged ones, and by discounting The RBI committee has fictitious bills. The facts reidentified thirty-odd banks and vealed are indeed mind-bog financial institutions which, acgling: of the total scam-tainted cording to it, were in some transactions amounting to manner or other, involved in around Rs. 13 lakhs, more than the perpetration of the grand

LLEGATIONS

A ed by the stock broker

from Bombay have in recent

larceny. The most devious per-

formers were four foreign

banks; one particular American

bank was very much the leader

of the gang. It is these foreign

banks which established the

initial liaison with shady bro-

kers operating in the stock ex-

HE resignation of Presi-

cra in Pakistani politics - an

era that saw palace intrigues,

selfishness and a total disregard

of ethics by those who rule the

scene, however, does not mean

an end to all these traits, prac-

ticed in the name of democracy.

in a country which has spent

more time under martial law

than under civilian rule since

its independence in 1947. The

periods of so-called civilian rule

have also been in the shadow of

Ironically, Khan, a remark-

able survivor of Pakistan's che-

quered history, was ultimately

consigned to oblivion by a man

whom he himself helped be-

come the country's prime minis-

ter, Nawaz Sharif. In the pro-

cess, Sharif also had to dissolve

parliament and go for a snap

assured when the Supreme

Court, on an appeal from

Sharif, overruled his decision of

April 18 to dissolved the

As the man responsible for

the biggest defeat in his long

career, Khan made sure that

Sharif lost power too. By

achieving this in a variety of

highly questionable ways, he

weakened the already damaged

Pakistan federation. His con-

duct took provincialism to new

heights and will encourage

those who try to revolt against

at least in the short run is for-

mer prime minister and leader

In the six-month political war both sides lost, the winner

the centre in future.

fresh elections on May 26.

Khan's political death was

military interference.

election.

His departure from the

country or aspire to do so.

dent Ghulam Ishaq Kh

an marked the end of an

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gigantic scale, and through such blatant disregard of standing rules and instructions. That does not however absolve the foreign banks of the culpability for the grave irregularities they committed. On the other hand, it only strengthens the suspicion that these foreign banks did enjoy a special relationship with political leaders and civil servants supervising and monitoring the nation's monetary and financial processes. Even a perfunctory check would perhaps suggest that many high-paid positions in these foreign banks were reserved for the offsprings or other relatives of important politicians and bureaucrats. Fabulous salaries and perquisites, almost comparable to what appointments with the United Nations specialised agencies offer, came to be attached to these positions where nominees of important personages were accommodated. The foreign banks obviously extracted a price for this cosy arrangement, the government was expected to turn a Nelson's eye to whatever improprieties they indulged in the course of their

But a more basic factor must also have been at work. The inherent logic of the economic policies pursued since the new government assumed office a little more than two years ago calls for an open-ended invita-

daily doings.

by an appropriate response on the latter's part. Our credit rating in the international capital markets, reflecting the perception of foreigners concerning the country's political stability and economic prospects, would largely determine the quantum of private capital inflows. Till now, the response of foreigners has been most feeble for reasons that are well known. The government is nonetheless persisting with a few simplistic notions in regard to the right modalities for encouraging foreign investment. One of these is that foreign banks will act as important conduits for funnelling investors' money from overseas, and they should therefore be treated with a great deal of deference. The fact that the grossly irregular activities of these banks have till now been ignored by the higher authorities must be attributable to this consideration.

tion to foreign investors followed

To ensure a return to legality and order in the financial system, the government will perhaps now be forced to undertake a number of remedial measures, including, for instance, increased surveillance over local banks and financial institutions. Certain steps toward this direction have already been announced However, as far as the forcing the take are concerned, the ha station continues. No punitive action has been proposed against the foreign banks which had engaged in innumerable illegal, including criminal, activities. Not one foreign banks has been asked to pack up. And the public are yet to be told whether rules and regulations governing the activities of banks incorporated in foreign countries are to be made more stringent, and enforced more rigor-

The authorities are obviously impaled on the horns of a dilemma. If foreign banks are neither penalised nor subjected to additional curbs, it would be impossible to eradicate the evil influence they have been exerting on Indian banks and financial institutions. On the other hand, to initiate action against these banks might involve the risk of affecting adversely India's credit rating in the international money and capital markets, and thereby set in motion a chain of unfavourable consequences for foreign investment in the country.

Were the government in New Delhi on a politically strong wicket, it could have found a way out of the dilemma. It would then have been able to convince itself that restoring the probity and soundness of the country's financial system ought to receive absolute priority For even in case the relationship cultivated with foreign banks was very friendly, that could not by itself guarantee

larger capital inflows should the national financial system be shot full of venality. However important the international linkages of financial intermediaries, they would be unable to attract funds from abroad if the country's system of financial management suffer from a bad reputation.

Unfortunately, a government floundering in all kinds of political trouble will be under considerable strain to act in consonance with this perception of reality. It is likely to continue to give the foreign banks a long rope. Not to speak of other things, it has till now not succeeded to bring these banks under the regulatory discipline of priority sector lending. Even the most innocuous move to discipline the foreign banks would, it might be feared, raise the ire of the International Monetary Fund, the World Bank and the United States administration and hence have a negative effect on the flow of foreign capital. The stranglehold of foreign banks on our financial system can in such circumstances only increase. Should the Dunkel proposals come through, this dominance is bound to increase several fold We will however be sadly wrong to take it for granted that the outcome would be either an overall improvement in the level of efficiency and rectitude in the system, or a galloping rise in the flow of investments from

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Bhutto Comes out on Top—for the Time Being tiated negotiations with the IMF

Javed A Malik writes from Islamabad

After weeks of quarrelling Pakistan lost its president and prime minister in a single day. A general election will follow in October. Key players will again be the two ex-prime ministers — Nawaz Sharif and Benazir Bhutto. And a change in leadership will not necessarily mean an end to the intrigues and unethical behaviour that has been evident in past governments.



BENAZIR BHUTTO

Her political foes destroyed themselves of the opposition, Benazir Bhutto - the internationally known champion of democracy National Assembly and ask for who has at times resorted to to-

> tally undemocratic means. In the end she ensured that two of her biggest political foes destroyed themselves by fighting with each other. She now has to covert this significant victory into the ultimate victory of wining the elections on October 6-9.

That will depend on many factors, including, the formation of alliances, fairness of the electoral process - guaranteed by the army -and the way election campaigns are conducted by

Sharif's major test as a politician will also come in these elections. For the first time since the start of his political career over a decade ago, he goes to the people without any backing of the country's power ful establishment - the bureaucracy and the army.

His better-than-average record as prime minister will help, but the tradition of people not voting for the party and persons previously in power will also haunt him.

The role of the army in this whole affair has been crucial. Despite having the opportunity, it resisted taking over by imposing martial law, as in the past. Instead it began efforts to defuse the situation soon after the crisis stared. It also remained strictly neutral, though Sharif's side maintains, it was neutral against us.

The present crisis is especially significant because the army patiently ignored efforts on Sharif's part to tarnish its image and give the impression it was divided. Contributing to the provincialism, it kept saying martial law would not come because most of the corps com-

manders were ethnic Punjabis. This persuaded the non-Punjabi Chief of Army Staff, General Abdul Waheed, not to impose Martial Law against a Punjabi Prime Minister. In fact,

the army does not operate on these lines, and the command structure has its own way of dealing with issues. Ethnicity does not carry much weight.

The army also made efforts not to become too conspicuous in brokering of a deal between president and the prime minister. The two would have reached no conclusion if they had been left on their own. " Once again the politicians of

Pakistan were falling to resolve political issues on their own and giving the army a chance turn political. All sides agreed that the caretaker group set up to hold elections would consist of neutral people with no political ambitions.

The only exemption is the Acting President, Wasim Sajjad, who belongs to Sharif's Muslim League. This could not be avoided. Constitutionally, as Senate chairman, no one else could take over from Khan.

In the light of this, the major parties agreed on former World Bank No 2 Moeen A Qureshi. He is an economist of extraordinary abilities, better known outside Pakistan than inside.

His appointment also symbolises the economic crisis Pakistan is facing. During the fiscal year ending June 30

1993, Pakistan's GDP growth rate was only three per cent, against a historical average of six per cent. This becomes more significant in the light of a 3.1 per cent annual population

growth rate. The budgetary deficit is estimated at around seven per cent during the same period. while the balance of payments showed a record deficit of \$3.6

The Sharif government initiated bold economic reforms and was successful in converting a semi-closed economy into a considerably open one in less than two and half years. However, mainly because of political expediency, it adopted a spendthrift attitude, raising the need for huge domestic and foreign borrowing.

Debt servicing will cost the nation 36.5 per cent of its total annual budget during the current fiscal year. The economic problems have been complicated by the recession, reducing exports, and the devastating floods last year which damaged the major export crop, cotton. The government also had to spend huge amounts of money for the relief and rehabilitation of the flood-affected people.

Sharif's government has ini-

for an Enhanced Structural Adjustment Facility (ESAF) of around \$1 billion for balance of payments support. The successful conclusion of

agreements on this would also lead to Pakistan getting around \$400 million from the World Bank and Japan. The caretaker government is expected to finalise this agreement, which would help relieve the urgent economic pressures and undertake further reforms.

The caretaker Prime Minister has assured the continuation of the economically beneficial free market policies of the previous government. His economic experience should help. But not much is expected on the Direct Foreign Investment (DFI) side by the end of this year.

The massive drive undertaken by Sharif's government to attract DFI could not produce results. By the time it could generate interest in Pakistan as a destination for foreign investments, the political uncertainty had started to deterring in-

The next elections and a new government do not mean an end to political problems in Pakistan. A mutilated constitution, greedy politicians, influx of dirty money into politics, and economic underdevelopment are bound to cause a recurrence of

political crises. - GEMINI NEWS

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Privatisation

Sir. Kindly refer to the news item *UNDP favours broad consensus Privatisation a Political Process" published in your esteemed daily on May 29, 1993 where it points out that process of privatisation in Bangladesh has taken place for the wrong reasons under wrong conditions and in wrong way. It points out that privatisation is a poor and incompetitive market environment. It also points out a trend of disposal of assets secretly without competitive bidding.

Privatisation or development of Bangladesh will not be possible by the tendency of accumulation of wealth by any one be he a politician or official or an ordinary individual, in bad way. At present there is a big question how corruption could be eliminated from society. Politicians, industrialists and officials must think for the country as a whole, not for themselves. If these people are selfless, honest and sincere then privatisation in Bangladesh must be successful. Otherwise the country and people as a whole will be simply poorer as is happening now.

All sections of people must wake up and declare a virtual war against corruption so that the country can go-ahead uninl terruptedly with development activities including success in privatisation. M Alauddin

System loss of PDB

West Nakalpara, Dhaka

Sir, The Honorable Finance Minister in his last budget speech stated that PDB had incurred a loss of over seven hundred crore Taka in the last financial year. The loss of DESA must also be very staggering. I congratulate the Minister for calling spade a spade. Although, under pressure from World Bank, PDB and DESA are trying to reduce their system loss, the success achieved so far is only marginal. Staff strength of PDB was roughly twentysix thousand before DESA was created. It is alleged that more than fifty percent of PDB officials/ employees are not tree from corruption. So roughly fourteen thousand of them are playing their part in this loss of seven hundred crore Taka annually and it is the helpless consumers who are paying through their noses. It is impossible that present PDB management can out down the system loss to a reasonable level — to roughly ten percent which is the international standard. Allegedly it is PDB employees who virtually

the bill as per meter and to come to an understanding with them. It is an open secret and needs no elaboration. Allegations go that in the name of reducing system loss people in PDB authorities are just buying time to make their fortune. One cannot deny it outright and now is the time to say "thus far and no further!"

It is felt that nothing short of a surgical operation can cure the situation. The only way to get out of this reckless pilferage is to privatize the distribution system which is, of course, vehemently opposed by PDB trade unions, engineers and staff. But it is national interest which should be the overriding consideration and not the interest of some fifteen thousand allegedly corrupt employees. If the distribution system is privatized 'hire and fire' system will be followed by the private owner in their own interest and public exchequer will be saved from a loss of Taka seven hundred crore annually which will be available for other development work.

As an experimental measure one or two zones of PDB and DESA can be selected and the trial and error method over, it can be extended to the rest of the areas. Let our leadership prove that they have got the grit, wit and will to make practical and pragmatic decision in national interest. They should not concentrate their eyes on a five-year term because one hour's glorious life is worth an age without a name. and in fact there can hardly be any justification now for having

Mrs Momtaz Jahan chase the consumers not to pay Fulbari, Sylhet

OPINION Red-tape Hurdles for Industry

T J HEN a South Korean Conomic delegation came a couple of months back, they rated Bangladesh as one of the prospective countries for investing their capital. At the same time they laid stress on improvement of infrastructure facilities and removal of procedural hazards. US Ambassador William B Milam in his candid talk to the Dhaka Chamber of Commerce earlier on, also mentioned "the fact that they have to go from pillar to post, from ministry to ministry, that puts off foreign investors. Needless to add, local investors have the same story to

Where precisely are these pillars and where precisely are these posts? What are the hurdles that the prospective investors have to face which the one-stop' Board of Investment has not yet removed? I asked a businessman.

Import Registration Certificate

One example that he gave concerns obtaining an Import Registration Certificate (IRC). While a commercial importer can get an IRC from the office of the Controller of Import & Export, say in Chittagong or in Sylhet, even within a day, an industrial importer has to undergo a lengthy procedure which has remained unchanged since the days of Pakistan when imports were very much restricted and regulated by the government. In these days of import liberalisation the procedure has outlived its usefulness

the two categories for importers

Juned A Choudhury

commercial and industrial.

A commercial importer has to submit a few documents to the Cl&E, such as, Municipal Trade Licence, rent receipt for premises, membership certificate of any Chamber of Commerce or Trade Association, and an IRC and Passbook will be his in no time. Taking advantage of such an easy and streamlined procedure, many importers exist on paper only making black money mount, no doubt. After obtaining an IRC, a commercial importer can import any item (except banned or restricted ones) of any amount. He can also import industrial raw material in any quantity.

On the other hand, for obtaining an industrial IRC, an industrialist, after setting up a factory, has first of all to apply to the Board of Investment branch office in his area, say Chittagong, (It used to be the branch office of the Director of Industries when the procedure was first set up in Pakistan). An inspector visits the factory to determine the items and the value of the import requirement of the factory. The inspector is a low-level official who has neither the technical know-how nor the education to carry out this onerous responsibility. The branch forwards the assessment of the inspector to the BOI head office in Dhaka. The BOI after necessary scrutiny forwards it to the office of the CCIE. The Chief Controller sends it to the Controller (in Chittagong who then issues an IRC and passbook - but ad hoc

ones only! One can only imagine the amount of follow-up, filenotes, oiling and greasing that takes place in these various offices to reach this stage.

The factory can start producing only after the raw materials have been imported and they reach the factory after customs clearance. After the import has taken place the industrialist has to repeat the same procedure to obtain regular IRC and passbook in place of the ad hoc ones. His imports remain restricted only to those items that are mentioned in his passbook, whereas a commercial importer has no limits. Again, a commercial importer can import any finished product for marketing, whereas a manufacturing multinational company has to obtain prior permission from the CCIE to do the same.

A question that naturally arises in the mind of a lay man, and which I asked, was why doesn't an industrialist import his raw materials through a commercial importer, or himself wearing a different hat. One of the reasons is that he will have problems in taking the cost of the raw materials in his books of accounts and in satisfying the auditors and income-tax authorities, replied the businessman. He also said that the Chambers of Commerce and Industry do not take up this problem with the government as the Chambers are mostly dominated by commercial importers and indentors and there is a conflict of interest involved.

The writer is a Management Consultant and is the Dhaka Bureau Chief of the weekly Consumer Economist.