

# More Financial Reforms can Attract Global Funds for Emerging Markets

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is taking the exchanges if it is an equity paper or an equity instrument.

**Venkiteramanan:** Absolutely. He takes exchange risk and there is no exchange risk for the Indian company.

**Salman Rahman:** You have done about 300 million and we have had about 15 million dollars similar but not quoted here. They are operating it through the Dhaka Stock Exchange and they are appointing custodian banks within Dhaka.

**Venkiteramanan:** I think in our depository system also these depository receipt custodians have a custodian who is corresponding with them in India.

The question is whether mostly the investors are of the Indian origin. Now I personally think once a dollar comes into a country, it doesn't matter whether it is Indian or non-Indian in origin. For instance the Chinese investment of 10 billion dollars is basically from the overseas Chinese. But I am advised by people like Merrill-Lynch, J P Morgan and so on that the Indian investor is really coming to about 30 to 40 per cent but the bulk is the funds. The pension funds, for instance, are mutual funds. Recently I negotiated in my



India they cannot. In case of India having floating currency, so why can't they reduce the bill. When we export, if there is any dispute on our export quality, if buyer claims, we cannot reduce the bill without permission from Bangladesh Bank. Will this restriction go away when the convertibility takes place?

**Venkiteramanan:** Let me explain this. This point was raised with us by the Indian traders even before convertibil-

**Unless there are investments in the country there will be hardly any need for Taka in the overseas market. I am not in favour of free-float. I think with managed float we can have a smooth transition, and it will be better for the economy.**

individual capacity with a very important fund in Boston. They had about 10 billion dollar fund. They came in and tied up with a company in Madras. It is not a very big company but they want to invest 100 million dollars in India.

Now that point is obviously the originators of the fund, not from the Indian investors. Now



Wajjuallah

Fidelity or Major Land, all these funds like Templeton's. I talked to Templeton when I was the governor. Its origin is very very diverse but what you might be interested in knowing is these funds have a certain percentage allocated for what they call Emerging Markets, two to three per cent, and India, Bangladesh, Pakistan, Sri Lanka form that.

**The most important thing is a stable exchange rate. It creates the environment where investors invest, people move their remittances and economic progress takes place.**

In spite of the so called irregularities the interest in India has been quite strong. It is to facilitate this investment, I think the steps that the Bangladesh Bank is taking are very important. It is more as a facilitator, as a catalyst of activity in the investment sense, that is where we need it.

**M A Taher:** I would like to put a question to all. We are the exporters as well as the importers. If we import and if there is any claim on materials from Hong Kong or other countries, they reduce their import bills. But in case of Pakistan or



Taka Convertibility: Bane or Boon  
28 September 1993

**Mahfuz Anam:** Mr Vankiteramanan, you touched on this point in passing but it struck me as very important.



Kazi Majid

You talked about this big international fund and you said they have two or three per cent of this fund set aside for developing countries in this area. Would you elaborate a little bit please?

**Venkiteramanan:** These

ity was contemplated. I found that this is very important and it was really a relaxation of Foreign Exchange Regulations Act. Why should a claim settlement, an arbitration settlement come to a central bank? We used to arbitrate on most of these issues including the payment to the lawyer. In fact, it used to be a very big point and by the time the lawyer faced or settled the issue the claim was over.

What we did was, we said

**We from the DCCI welcome this move. However we are not clear as to all the implications of this reform. We are not sure how it will impact on the business community.**

you need not to come to the central bank. It could be settled by the authorised dealer. After all you are taking the risk, you are making the payments and therefore we did not want the matter to come to the central bank.

**M A Taher:** I feel the exporters and importers are taking their own risk and so central bank should not control it in this way.

**Venkiteramanan:** This was done in the old days because the central bank found that

funds are actually like mutual funds in our part of the world. People contribute to them in the expectation that out of their investment they will get higher return than what they are getting from their banks and other intermediaries. These funds have very large collections or deposits, hundred or two hundred billions per year. Now these



Forrest Cookson

amounts have to be invested in stocks or in bonds according to their particular investment policy. They find that investments in developed stock markets do

not give them as high return as they would like to get. So they would like to invest in emerging markets. In the emerging markets they have been earlier concentrating on Indonesia, Malaysia, Singapore, Hong Kong and now they are also looking at the emerging markets of the South Asian region.

I think if you make the facility available and if we sell the details to them through our friends I am sure they will come and invest in our markets. I mentioned about the percentage allocation which is very important. They do not want to spread their risk in a particular area. They would like to diversify that risk and therefore set apart two to three per cent to begin with in some other funds which I talked. But even two or three per cent can be a very large amount in this matter.

**Zahiruddin Khan:** I believe most of the developed countries like America, Europe even Japan are going through recession. So isn't this limiting the investment possibilities with the desired return? As these funds will start moving, as you said to our markets, I see a scenario where lot of these funds will come to these areas and now the real challenge is to make these funds welcome through appropriate policy measures and this convertibility would assist in that manner.

We are hoping that this will encourage funds to flow in because today South East Asia is the most dynamic region. This dynamics is moving to South Asia. We can only delay but the influence is coming. I believe that the absorption capacity in the developed countries for this huge fund is getting limited and the return is not worthwhile. Therefore, this fund has to shift and it is upto our economic planners and financiers to see that this flow is welcome in a way to make this flow in and flow out easier.

I agree with the minister. I think there is a terrible potential here if it is properly exploited. In good state of stock market there will be an important flow of capital resources which will enable further investment in this country.

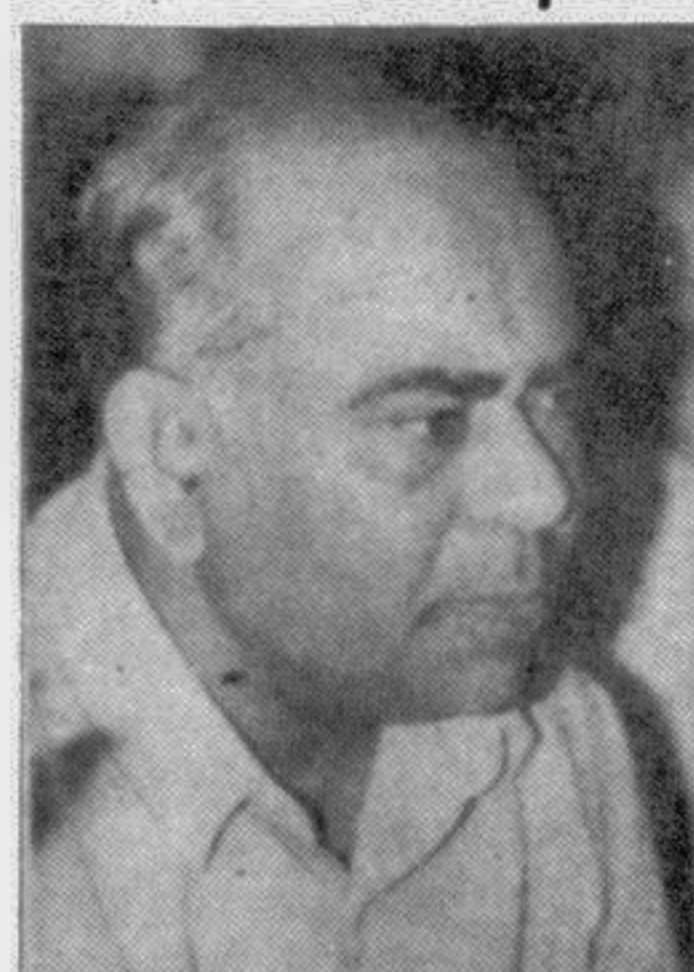
**Salman Rahman:** I would just like to add to what the honourable Minister said on this issue, on this fund. You see there are two reasons. One is that the rate of return is less in the emerging markets. What is fantastic is that you are able to pick up stock at a very low PE (Price Earning) ratio. That is, in other words, you get the shares at a very very low cost. Now these are institutional investors who have long-term investment plans. They don't want to come in make quick money and get out.

As they (investors) are being able to get into the stock market at a very low level at this moment they feel that in five to six years they will be able to make good profit when they get out of it. However, for this we need to have an institutional

framework in place. We have already attracted some of such funds. We have got a lot of the emerging market funds already investing in the Dhaka Stock Exchange. But the problem is that there is no supply in the Dhaka Stock Exchange of good stocks.

The other problem is that for these funds to come here we need to offer them custodian services. We got two friends (from international banks) sitting over here, neither of them offer custodian service. Indo-Suez is offering only their in-house supply fund but they are not offering anybody else. Standard Chartered is offering, so others will also come soon. We need a lot of institutional work to be done.

**Venkiteramanan:** The honourable Minister had a question about whether the stock scandal or irregularity scandal, has affected the attractiveness of the market to the investors. I find that there has been no effect. But I may point out that it is worthwhile for countries like Bangladesh to



Mahbur Rahman

start funds. We experimented it from 1985. I started one with Merrill-Lynch then Morgan. The State Bank of India and Morgan did have a 180 million dollar fund. They were the starting points for some of these activities. Of course now the international investors are coming.

I am repeating one point of view which emerged about the foreign exchange. If you earn it why can't you keep it. Somebody said we'll walk around with dollars in our pockets. Now apparently in India this was also the sort of apprehension but what happened actually is that after an initial maybe slight outflow the experience in India show that money started coming back, because people were not interested in keeping dollars, because you could convert it. Secondly, the rate of interest keeping it in US dollars as opposed to having it in Indian Rupee was a sort of deterrent to keeping it abroad.

**Venkiteramanan:** We allowed that facility to banks and to individuals to keep the dollars. In fact, very little of it was

used because when you asked them they would say as long as the exchange rate was not going to be very volatile and there was no depreciation inside they would prefer to have 14/16 per cent interest rather than put it in a four per cent, in fact we offered six per cent as an at-

**We are following the pattern of India, Pakistan, Sri Lanka and some others. A foreigner can now invest any amount, in any area, and then go out with full amount of all his gain and his investment.**

traction but nobody was interested.

If you offer sufficiently high interest rates they may keep the dollars. But we wanted to just give them enough attraction, we didn't want to give too much attraction to keep the dollars. In Singapore, for instance, you can keep US dollars or you can keep Singapore dollars. But your dollars which is kept in Singapore only attract corresponding rates of interest.

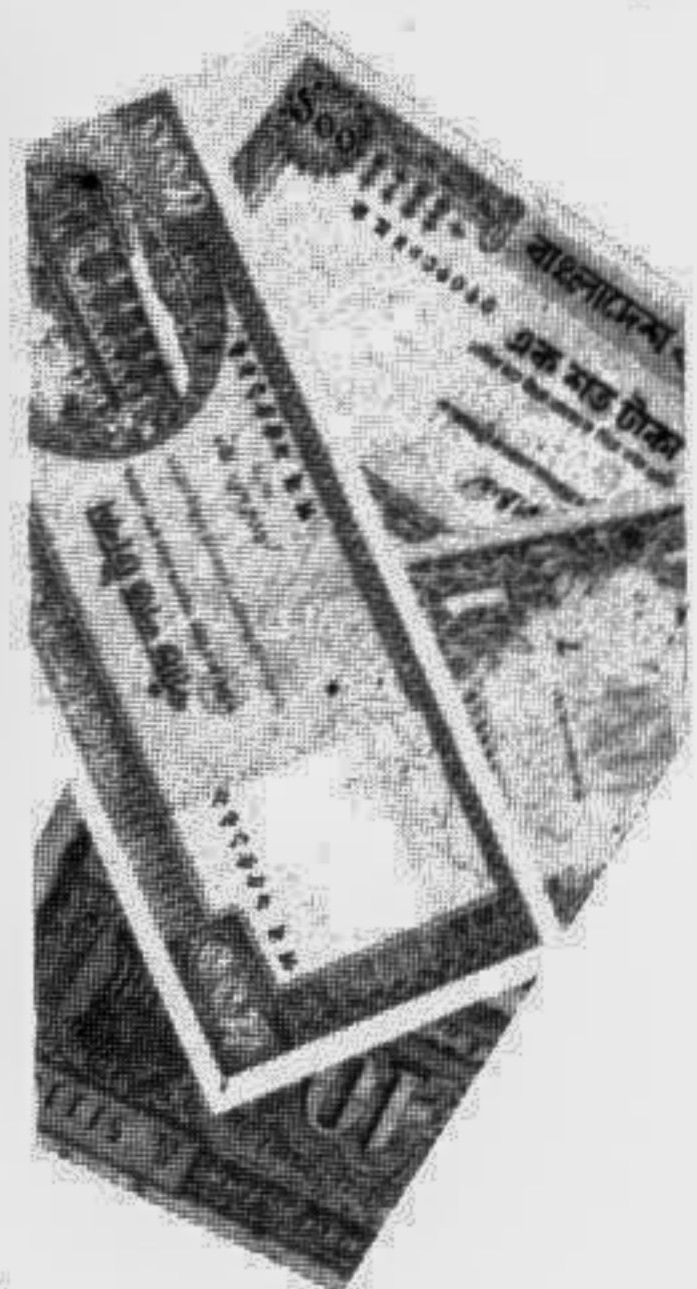
**For Taka convertibility to have a real impact on the economy, one isolated step will not be enough. It has to be a part of a total package of reforms, all of which must be implemented simultaneously. Convertibility should be full, and not partial.**

We are talking about mutual funds and I just wanted to mention again that India apparently is vetting the companies that come into the stock exchange. That means any old investor, a fly-by-night operator cannot come in and invest in the stock market. They have to have credentials which any respectable company has. Because if you have a fly-by-night operator come in, operate and suddenly move out, in a

**Our intention is to make our readers better informed about this complex issue which will touch each of our lives. We expect our readers to react, write letters etc. once the transcript of the roundtable is published.**

small market like ours, it could completely disrupt the system and the boon can become a bane.

**Jamaluddin Ahmed:** Foreign investors still find it very difficult to invest here for various reasons. First of all our



non-monetary systems are very difficult, then again our restrictions. Our stock exchange is so small, the problem is not investment, the problem is there is nothing to buy. This is our main problem.

Not even the nationals have got enough opportunities to buy stock and shares here. Foreigners did come, they have shown interest but there were not enough scripts here to go by. Why should the foreigners come here if they cannot bring in and take out money? We have to tell the people of

the world that in Bangladesh money is convertible. You can take in money and you can take out money. With regard to the capital account, there is a serious misconception here. We allow capital account repatriation here but that is only for the foreigners. We allow capital account repatriation, convertibility or whatever you say.

Not only that, we promote and protect the foreign invest-

ment by a legislation but not by the foreign exchange regulation, but Act of Parliament. Not only does this allow full repatriation of the capital he had brought in but also with all the capital gains he has made out of it. This is guaranteed by the Republic but not by the governor of Bangladesh Bank.

Everybody has said that our authorised dealers of foreign exchange will determine

through the supply and demand position of foreign exchange on a day to day market. Of course that is convertible. Because without a rate of exchange there cannot be convertibility. When you say convert, then at what rate? We have always had convertibility under a managed rate.

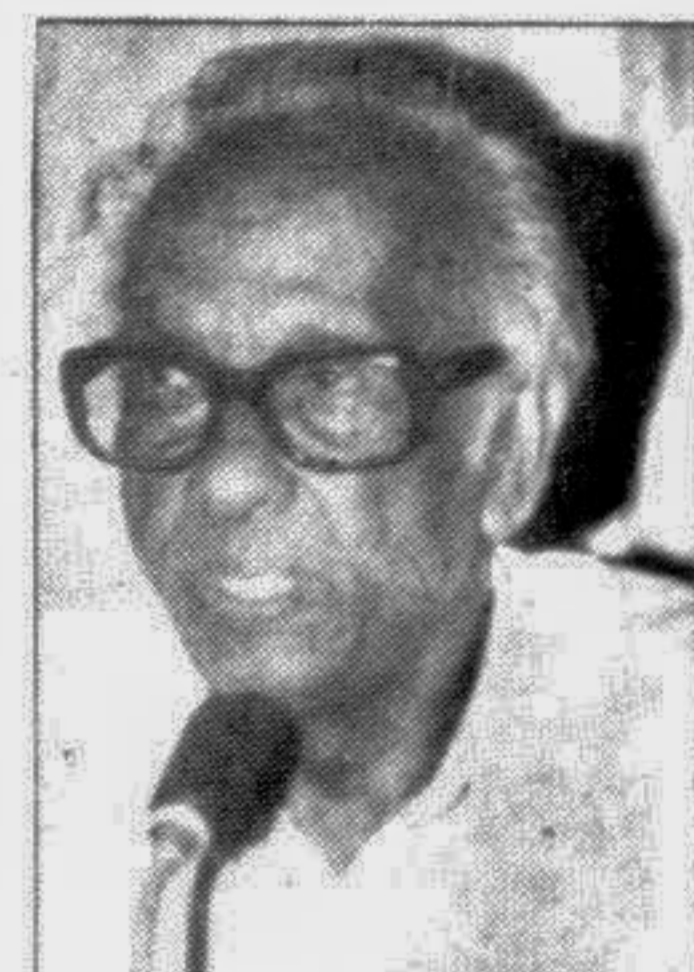
**Salman Rahman:** I would like to ask Governor Venkiteramanan what he meant by saying that convertibility without an exchange rate de-

termined by the market is a myth.

**Venkiteramanan:** I believe real convertibility comes from the market determined rates. But your Deputy Governor has said that the guiding hand of Bangladesh Bank is necessary present, at transitional stage. I am, therefore, saying that you are not going convertible. You are only allowing in the IMF sense that you can convert takas to dollars. But you can convert takas to dollars at rates determined by the Bangladesh Bank.

What the Bangladesh Bank says is that they will determine that rate with reference to the market at which different banks are dealing with each other. This is a phase in the transition to what I consider as convertibility. True convertibility will come only when the market determines the rate. Because if you don't do that there will always be a parallel market.

**M A Taher:** I have on question to our Deputy Governor. We are the exporters, we can maintain foreign currency account. We are keeping dollars but we are not being paid any interest. Rather when we go out for travel purpose we have to take travellers' cheques, which

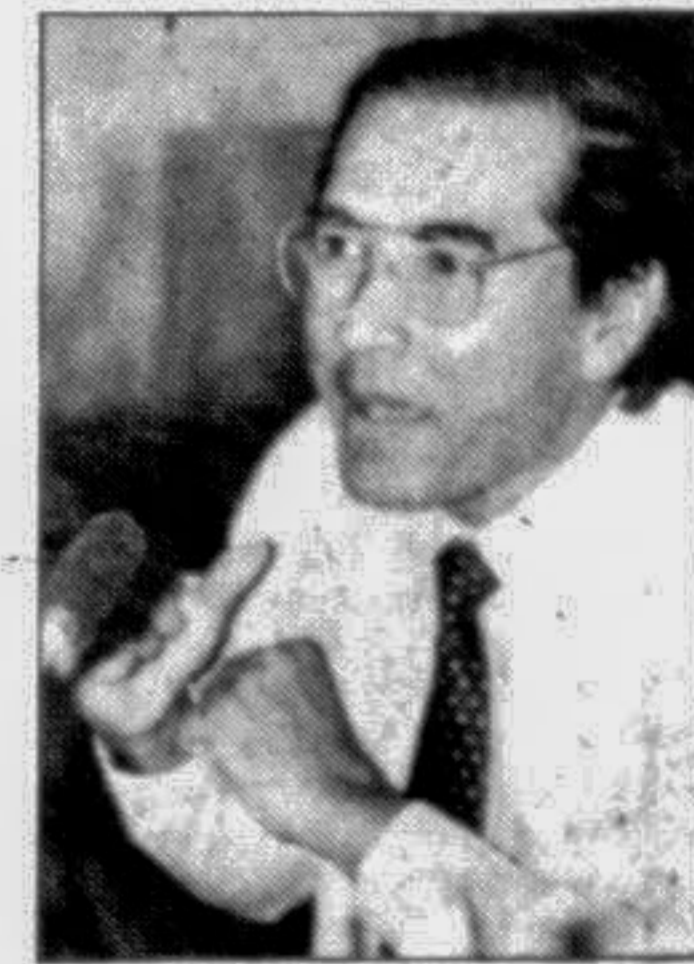


Kamaluddin Ahmed

also cost money.

**Kamaluddin Ahmed:** You are right. Every service has a cost. You keep an account for current transaction, but you don't get anything. But you have 10 per cent to keep with you. If you don't want to keep it that way even there are ways which can earn some interest. The system is such that when you sell the foreign currency because you have exported something, there is one transaction completed. But when you are buying or importing anything, there is another transaction taking place. That is why this mechanism is there and so you have to pay for any service you take from the bank.

**Mahfuz Anam:** We have come to the end of our roundtable and it has been a most stimulating session. I must mention an observation of mine. When The Daily Star organised the first roundtable every participant, when they started to speak, thanked The Daily Star for arranging it.



Mahfuz Anam

Today, quite interestingly, nobody did. We take it as a great compliment. We take it as a compliment because you have come to expect this of The Daily Star and there fore you have not thanked us for it. So, thank you for not thanking us.

On behalf of the Editor, Mr SM Ali, who could not be with us, and on my own behalf, I thank you all for sharing your thoughts and expert opinions with our readers.



The Daily Star Round Table

On

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