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Foreigners increasingly keen to invest in capital market

By M Anwarul Haq

Foreign buyers are getting increasingly interested in investing in the country's capital market. However, lack of liquidity and low level of supply of shares and debentures in the Dhaka Stock market, growth of investment in the capital market is hampered to great extent.

In an exclusive interview with The Daily Star, two leading Investment Analysts from the London-based Brokerage House, Smith New Court's Far East office in Hong Kong, Ms Parvati N. Banati and Abhijit Chakraborti gave their views about the problems and prospects of foreign investment in the Dhaka Stock Market.

Parvati and Abhijit are actively involved in the Bangladesh market analysis for their company having worldwide operations in brokerage including India and Pakistan.

The two analysts informed that their firm Smith New Court is among the first to open up the Bangladesh market to foreign buyers. "Our company has mobilised roughly between 10 and 15 million US dollar since we started investment on behalf of our clients in February, 1992. It is nearly 90 per cent of foreign investment."

The analysts stated that the demand for Dhaka's stocks was rapidly increasing. The average daily turnover was around 16,000 US dollar only six months back, which is now nearly double in the range of 32,000 US dollar. However, efforts should be made to make overseas presentation through publicity campaign as to how the economy is improving. "It is a matter of dissemination of information."

Parvati Banati said the recent wave of foreign buying that has bid up shares across the sub-continent has yet to reach Bangladesh. She however, pointed out that the investment potential in the capital market now is better than anytime before.

"Bangladesh's macro-level management is good, Taka is strong against dollar, inflation is well controlled and export growth is increasing — the basic trend is encouraging and opening up the market to foreign investors," said Banati.

Abhijit Chakrabarti

Parvati N Banati

Describing the Dhaka Stock Market, Parvati and Abhijit observed, "Free float of shares with the public is very limited. Liquidity is restricted. It is difficult to acquire stocks."

Stressing the problem of liquidity, the two analysts said, the public here is generally interested in dividend yield, not capital appreciation. As a result, they do not trade shares regularly leading to relatively depressed prices. "Listed companies are generally trading on fairly low price earning ratios."

They also observed that the reason for low liquidity is attributed to the fact that, on an average 60 to 70 per cent of the shares are held by the promoters while another 15 per cent or more by institutions like the ICB. "Actual liquidity of shares available in the capital market ranges between 15 per cent and even in cases as less as one or two per cent," they said.

The feature of controlling the major shares by the sponsors was not unique to Bangladesh, they said adding "Most of the promoters in the sub-continent have very high holdings". "This is rooted in tradition and should be discouraged," they further said.

The stock analysts felt that Debenture and Equity shares now dominate the market.

"More derivative instruments are required to activate the market and this would also serve to reduce the companies cost of capital and also educate investors about the attractiveness of these new instruments."

The analysts suggested that Pension and Provident Funds should be allowed to invest in the market because the funds are "phenomenal". Besides, we would also recommend more institutional players in the market — the ICB is now the only one."

Foreign buyers find it generally uneconomic to invest, they said, pointing out that normally from 50,000 to 1,00,000 US dollar is the size for an individual overseas transaction.

Smith New Court has already made investments on behalf of foreign clients in both secondary and primary markets. The companies they have traded include Beximco Pharma, Beximco Infusions, BATA and Apex Tannery.

The firm's custodian services are provided by Standard Chartered while buying and selling done by local brokers. Normally it takes four days for a trade to be settled.

"Many of our companies have achieved capital appreciation in the last five months," they informed.

Parvati and Abhijit foresaw that 1994 would be a crucial year. "There is a clear possibility that the volume of capital market in Bangladesh will expand tremendously in as much as many companies are poised to go public to raise capital in the market."

During their recent trip to Dhaka they found the regulatory authorities like Securities and Exchange Commission, the Stock Exchange and the Privatisation Board" very open to suggestions."

"Bangladesh capital market has a distinct potential to be influenced by the inflow of foreign funds in the coming year," they said.

China recontrols grain prices after sharp rises

BEIJING, Dec 21: Chinese authorities are slapping price controls back on grain and other staple foods after rumors of shortages led to sharp price increases, official newspapers announced Tuesday, reports AP.

The move comes just seven months after the government lifted a 40-year-old grain rationing and price control system as part of its efforts to build a market economy.

It reflects the Communist government's continued suspicion of a free price system and its acute sensitivity to anything that might trigger popular discontent and social unrest.

Vice Premier Zhu Rongji, regarded as a reformer, announced a series of indirect moves to lower grain prices, including selling state reserves of grain and lowering the prices in state-owned shops.

The official Xinhua News Agency quoted Zhu as saying price stability was essential for the government to implement as series of important market-reform measures next year, including reorganizing the banking and currency exchange systems.

However, Beijing city officials took more drastic measures than Zhu outlined, reimposing price controls on 27 food items.

The newspaper China Daily said the city government agreed on the move in an emergency meeting Saturday after the prices of grain, cooking oil, pork and eggs rose 30 to 40 per cent last week.

Mahbub Jamil Chairman and Managing Director of Singer Bangladesh Ltd. handing over a gift Singer Colour Television set to Khurshid Alam, Chairman, Dhaka Stock Exchange Ltd. for the Members of DSE.

Stock scandal in India

Probe body recommends suspension of 4 foreign banks' operation

NEW DELHI, Dec 21: A parliamentary committee Tuesday recommended suspending the licenses of four multinational banks, including Bank of America and Citibank, for their involvement in a massive securities scandal, reports AP.

Publishing its final report after a 17-month probe, the committee of 30 lawmakers blamed Indian and foreign banks for misusing funds to fuel speculation in the Bombay stock market in 1991 and 1992, leading to an artificial boom.

The report also indicted the Finance Ministry for failing to adequately supervise the stock exchange and ignoring signs of fraudulent activity.

It said Finance Minister Manmohan Singh must be held accountable to Parliament. But it made no recommendation of sanctions against Singh, who is the architect of India's liberalized economic policy.

Besides the two US-based banks, the report faulted ANZ Grindlays and Standard Chartered Bank as culpable in the 1.8 billion dollar scandal.

"Foreign Banks were initiators of the scam as well as the major players," the report said.

The banks misreported millions of dollars in their books and illegally diverted government bonds to make funds available to selected stockbrokers for quick speculation.

When the scam was discovered in April 1992, the stock market crashed and millions of middle-class Indians who had invested life's savings lost heavily.

The foreign banks violated the regulations of the Reserve Bank of India and of their own countries, said the 474-page report released in parliament.

"It is necessary that stringent penalties, including suspension of licenses, are imposed on these banks... Legal action should be pursued both in India and the foreign country concerned," the report recommended.

It also recommended that executives of at least two Indian banks be prosecuted. The directors of several other banks have resigned since the scandal broke.

There was no immediate comment from the government on whether it will take the action recommended against the foreign banks, which have helped bring international banking practices to India in the last decade.

The report made no recommendations concerning allegations by the leading stockbroker in the case, Harshad Mehta, that he contributed two suitcases stuffed with money to Prime Minister PV Narasimha Rao's political war chest. Rao denied receiving money from Mehta.

Railway procures 80 container wagons from China

Bangladesh railway has procured 80 container wagons from China at a cost of Tk 10.6 crore with the assistance or Asian Development Bank (ADB), reports UNB.

These 40-foot specialised type container wagons have arrived in Chittagong port recently, raising the total number of container wagons of Railway to 217, said a press release of the Communications Ministry yesterday.

Bangladesh Railway has expanded its Inland Container Depot (ICD) to increase its holding capacity.

Halim new GM of Agrani Bank

Abdul Halim Bhuiyan joined Agrani Bank recently as General Manager. Prior to that he was the Director and DGM of Agrani Bank Training Institute, says a press release.

Abdul Halim Bhuiyan was born in 1940 in the village Mithapur under Kalatia union of Keranigong thana of Dhaka district.

During 28 years of banking service, he held various responsible positions including zonal head and divisional head. From the very beginning of Agrani Bank Training Institute he has been working as a guest speaker. He is also a regular guest lecturer of BIBM.

Russia needs debt rescheduling to ease economic pressure : OECD

PARIS, Dec 21 : Extensive debt reschedulings and strong export growth should ease economic pressures facing Russia over the next two years, the OECD said yesterday, reports Reuter.

The Organisation for Economic Cooperation and Development, a think-tank for rich Western countries, forecast another big drop in Russian gross domestic product (GDP) — the size of the economy — in its half-yearly outlook, compiled before this month's Russian elections.

GDP would shrink by nine per cent in 1994 after contracting by 11 per cent this year and 19 per cent in 1992, it said. But it pencilled in one per cent growth for 1995.

Russia's foreign debt could be rescheduled by a further 20 billion US dollar in each of 1994 and 1995 but official export credit would remain limited to about four billion US dollar.

The OECD estimated inflation in Russia this year at 900 per cent. It gave no forecasts but said future inflation depended on whether stabilisation policies were implemented effectively.

If Russia adopted policies similar to those tried in the Baltic states of Estonia and Latvia, the inflation rate could be brought rapidly under control in 1994, it added.

Growth to slow in some E European states

Another report from Paris adds: Some East European countries should resume growth in 1994 and almost all should expand in 1995 but growth will remain disappointingly slow the OECD said yesterday.

Limited progress in implementing economic reforms and achieving stabilisation will retard a return to growth in Romania, Bulgaria and to a lesser extent Slovakia, it said in its half-year outlook.

The OECD, was more pessimistic than local officials in its forecasts, although it repeatedly excepted the Czech republic from its gloomy survey.

Give limited access to private capital markets, foreign resources will be restricted by weak foreign investment and limited net official flows of funds, especially as repayments on multilateral debt accelerate in 1995.

The annual dinner '93 of Federal Insurance Company Ltd was held at Dhaka Sheraton Hotel recently. Finance Minister M. Saifur Rahman attended as chief guest while Industries Minister A.M Zahiruddin Khan was present as the guest of honour.

Indian sky will open fully to private airlines

NEW DELHI, Dec 21: India is about to open its skies fully to private airlines but will not allow them to fly overseas, Aviation Minister Ghulam Nabi Azad said yesterday, reports Reuter.

"Private taxi operators (as private airlines are known) will be restricted to flying only in India and not abroad," Azad told a meeting of aviation industry experts.

Nor would India allow foreign airlines free access to its airports, the minister said.

He said since there was no international agreement governing landing rights, India would open its airports only under bilateral agreements.

গণপ্রজাতন্ত্রী বাংলাদেশ সরকার
কর কমিশনারের কার্যালয়
কেন্দ্রীয় জরীপ অঞ্চল, বাংলাদেশ
১৩৬/২, নিউ সার্কুলার রোড, বড় মগবাজার
ঢাকা-১২১৭

দরপত্র বিজ্ঞপ্তি

নং-১বি-১০/৯৩-৯৪/৪৯৪ তারিখঃ ০৯-১২-৯৩ইং

কর কমিশনারের কার্যালয়, কেন্দ্রীয় জরীপ অঞ্চল, বাংলাদেশ, ১৩৬/২, নিউ সার্কুলার রোড, বড় মগবাজার, ঢাকা-এর ব্যবহারের জন্য নিম্নবর্ণিত সম্পূর্ণ নূতন ও সর্বশেষ মডেলের নিম্নবর্ণিত যানবাহনসমূহ ক্রয় করার জন্য প্রকৃত গাড়ী/সরবরাহকারীদের নিকট হইতে নিম্নলিখিত শর্তে সীলমোহরকৃত দরপত্র আহবান করা যাইতেছে।

১। জীপ গাড়ী দুইখানা। পাজেরো/টয়েটা ল্যান্ডক্রুজার / ৪/২ দরজা বিশিষ্ট ২৫০০/৩০০০ সিসি। প্রতিটি গাড়ী ১২ আসন বিশিষ্ট পেট্রোল চালিত হইতে হইবে এবং দরপত্রের সহিত ক্যাটালগ/ব্রশিয়ার ইত্যাদি সংযুক্ত করিতে হইবে।

২। একটি ষ্টাফ বাস। গাড়ীটি ৩৬ আসন, ১/২ দরজা বিশিষ্ট ডিজেল চালিত হইতে হইবে এবং দরপত্রের সহিত ক্যাটালগ/ব্রশিয়ার ইত্যাদি সংযুক্ত করিতে হইবে।

৩। ১০০ সিসি একটি মটর সাইকেল হোন্ডা সি, ডি, আই, পেট্রোল চালিত, হেলমেটসহ দরপত্রের সহিত ক্যাটালগ/ ব্রশিয়ার ইত্যাদি সংযুক্ত করিতে হইবে।

৪। দর প্রস্তাবকারীকে রেজিষ্ট্রেশন খরচসহ প্রস্তাব করিতে হইবে।

৫। সরবরাহকৃত গাড়ীসমূহের সহিত অতিরিক্ত চাকাসহ টুল বক্স এবং ২/১ বৎসরের বিক্রয়োত্তর সেবার নিশ্চয়তা দিতে হইবে।

৬। কার্যাদেশ প্রাপ্তির ৭ (সাত) দিনের মধ্যে গাড়ী সরবরাহ করিতে হইবে।

৭। গাড়ী সরবরাহ করার পর ৩ (তিন) প্রস্ত বিল অত্র কার্যালয়ে দাখিল করার পর চেকের মাধ্যমে মূল্য পরিশোধ করা হইবে।

৮। দরপত্রের সংগে উদ্ধৃত মূল্যের ২.৫% জামানত হিসাবে পে-অর্ডার/ব্যাংক ড্রাফট আকারে নিম্নস্বাক্ষরকারীর অনুকূলে অবশ্যই দাখিল করিতে হইবে।

উপরোল্লেখিত শর্ত সম্বলিত দর প্রস্তাব আগামী ২৭-১২-৯৩ ইং তারিখে বেলা ১১.৩০ ঘটিকার মধ্যে অত্র কার্যালয়ে রক্ষিত টেন্ডার বাক্সে জমা দিতে হইবে এবং ঐ দিন ১১.৪৫ ঘটিকার সময় দরপত্রদাতাদের উপস্থিতিতে (যদি কেহ থাকেন) দরপত্রসমূহ খোলা হইবে।

কর্তৃপক্ষ কোন রকম কারণ দর্শানো ছাড়া যে কোন দরপত্র গ্রহণ বা বাতিল করার ক্ষমতা সংরক্ষণ করেন।

আব্দুল করিম
সহকারী কর কমিশনার
সদর দপ্তর (প্রশাসন)
ও সদস্য সচিব
বিভাগীয় টেন্ডার কমিটি
কেন্দ্রীয় জরীপ অঞ্চল, বাংলাদেশ।

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Third World gains more, loses less in Uruguay Round

WASHINGTON, Dec 21: During the next decade industrial country quotas on developing country textile and quota exports will disappear, tariffs on several key developing country industrial products will be phased out, and prices will rise for many developing country agricultural exports.

These will be direct results of the conclusion of the Uruguay Round global trade accord, according to private economists interviewed by USIA.

"In the end, they got a strengthened multilateral trading system, which more than anything else is of greatest value to developing countries," Jeffrey Schott, an economist at the Institute for International Economics, said.

Trade analyst Gary Hufbauer says he is a little perplexed about reports from developing countries claiming that they didn't gain much from the Uruguay Round, which was concluded December 15 and whose key provisions are to be phased in beginning July 1, 1995.

"I thought it was remarkable that we got a commitment to phase out the textile and apparel quota system," Hufbauer said.

The biggest beneficiaries of the Uruguay Round were not the industrial countries but the emerging markets, says Michael Aho, senior economist with Prudential Securities, a financial firm.

" Markets are opening up. Trade is going to expand. Trade will be a handmaiden to growth," Aho said. " The alternative to them was markets closing down if the Round had failed."

Stuart Tucker, an economist and visiting fellow at the Overseas Developing Council, agrees with Hufbauer that developing countries were able to achieve most of their objectives while holding off for some time trade liberalization in areas of key interest to industrial countries, such as intellectual property and services.

" We now have a much stronger trade system run by a World Trade Organization that has more muscle for resolving disputes," Tucker said.

A recent Organization for Economic Cooperation and Development (OECD) study of the national income effects of trade liberalization, conducted before the conclusion of the Uruguay Round, estimated that full implementation of the proposed Uruguay Round accords by industrial countries alone would boost developing country income by 29,900 million dollar a year. The OECD estimated that if developing countries joined in the trade liberalization effort, their annual income would rise by 86,400 million dollar.

Textiles and Apparel

A 240,000-million dollar-a-year global industry, textiles and apparel are produced mostly in Asia, Latin America and to a lesser extent in Europe.

The current Multifiber Arrangement (MFA), which has for 40 years governed system of import quotas provided by industrial countries to developing countries, will be phased out over a ten-year period beginning July 1, 1995. Industrial country producers h[illegible]ught a 15-year phaseout. The agreement calls for modest relaxation of quota restrictions in the earlier part of the ten-year transition, with most of the changes coming in the last five years.

During the 10 years, tariffs on textile and apparel also will be progressively reduced — by 12 per cent on average in the United States.

According to one study cited by the GATT, the value of exports of currently constrained suppliers of textiles and apparel to the US market would rise by 20.5 per cent for textiles and 36.5 per cent for clothing as a result of eliminating the MFA.

Market access in industrial products

Industrial country tariffs will be eliminated a process called "zero-for-zero" on construction and agricultural equipment, medical equipment, steel, beer, distilled spirits, pharmaceuticals, paper, toys and furniture. Tariff cuts on electronic products will range from 50 to 100 per cent on selected items. Tariff cuts on wood and certain non-ferrous metals are subject to further negotiation, which must be completed in the market access area for all products by March 31, 1994.

"Industrial countries cut their tariffs in a number of products which developing countries will get full advantage of though they developing countries are not required to come into the zero-for zero party," Hufbauer said. " I would single out toys and steel as two areas where developing countries are important producers. I think that is not negligible."

Agriculture

The agreement calls for reductions in export subsidies, internal supports and market access barriers. Where imports had been banned, a country must allow imports a minimum three per cent initially of domestic consumption of the banned product, climbing to five per cent by the end of the six years. Al quotas and other hidden barriers must be converted to tariffs and progressively reduced.

While the agricultural commitments must be phased in by industrial countries over six years, developing countries have ten years to do so. Also cuts in market access barriers are less for developing countries — 24 per cent on average for all products no less than 10 per cent for each product category rather than 36 for industrial countries with a minimum reduction of 15 per cent for each product category.

In addition, the average tariff reduction on tropical products is expected to be around 40 per cent, though negotiations on specific commodities have not been completed.

Bill Frenzel, a Brookings Institution scholar who spent 20 years as a member of Congress, believes, the agricultural accord will help developing countries two ways: the reduction production subsidies will make it easier for developing country agricultural exporters to compete in world markets, and the increased market access, not only in industrial countries but worldwide, should enhance developing country export prospects.

Most believe the price effects of farm liberalization also will be a positive contributor to developing countries, though individual countries may experience some loss in income as a result of their economy's dependency on single commodities. A freer market will, in the short-term mean higher prices for a number of developing country importers that are not yet in a position to produce enough food for themselves.

According to one report cited by the General Agreement on Tariffs and Trade, the price effect of a one-third reduction in industrial country agricultural support would be a 4.4 per cent rise in exports of temperate food products by developing economies.

Intellectual property

When the Uruguay Round started in 1986, developing countries expressed considerable resistance to tougher intellectual property protection, particularly in the area of patents. At that time they said that prices charged by industrial company companies in such areas as pharmaceuticals were unaffordable to most of heir populace, which should not be [illegible]ted access to such products. Industrial country companies argued that piracy of US goods was costing them thousands of millions of dollar annually and inhibited their ability to develop new products.

Over the last seven years, movement by both sides has been considerable. The agreement reached in the global trade accord is comprehensive, covering a forms of intellectual property, including strict limits on compulsory licensing of patented products by governments, often applied to pharmaceuticals in poor countries.

However, the least developing countries have an extra 11 years to implement the accord and most other developing countries, such as India, have been given five years.

Where there is no patent protection of any kind, in areas such as pharmaceuticals, developing countries have 10 years to put legislation into effect.

Industrial-country pharmaceutical producers had wanted, but failed to get, protection for drugs already invented but not on the market.

Other measures

The Uruguay Round accord prohibits certain investment restrictions that inhibit trade. Industrial countries have two years to eliminate such practices while developing countries have five years.

The agreement prohibits the use of export subsidies in industrial products as soon as the accord goes into effect. However, the least developed countries have eight years to phase out these subsidies, and other developing countries have two years.

The least developed countries also will have an additional year to submit areas where they plan to provide greater market access. — *USIS*