

DHAKA, FRIDAY, MARCH 25, 1994

US eases control on hi-tech exports to ROK

WASHINGTON, Mar 24: The Clinton administration has relaxed controls on exports of advanced technology to South Korea after that country set up its own export-control system to US satisfaction, reports USIS.

According to the March 21 Federal Register, South Korea, as a "cooperating country" under US export law, can now import under general licence nearly all US-made goods that are controlled by the Coordinating Committee for Multilateral Export Controls (COCOM).

Korea can also re-export most of those goods to other countries in COCOM, which comprises Australia, Japan and the NATO countries except Iceland and to other cooperating countries — Australia, Finland, Hong Kong, Ireland, New Zealand, Sweden and Switzerland.

Since COCOM is going out of business March 31 and the US Congress is trying to rewrite the Export Administration Act before July, the long-term significance of the US action toward Korea now is unclear.

US assigns high priority to trade with India

WASHINGTON, Mar 24: The Clinton Administration is seeking a more cooperative, comprehensive and forward-looking relationship with India, Commerce Undersecretary Jeffrey Garten said on Tuesday according to a USIS release.

US officials hope for "a broad dialogue that doesn't just dwell on the immediate issues... but recognizes the fact that in the world as it's developing, we want India as a partner," he said. Washington will "devote much more attention to India than has been the case in a very long time."

One sign of that is Deputy Secretary of State Strobe Talbott's upcoming trip to India, to be followed by Commerce Secretary Ron Brown's visit later in the summer. Such high-level visits, Garten noted, have been "conspicuously absent" in recent years.

Garten spoke to a standing-room-only audience of journalists, executives and officials from both countries who assembled to hear a discus-

sion of the issues and opportunities that will define US-Indian relations. He was joined by Indian-born scholar Jagdish Bhagwati, who is a professor of economics and political science at Columbia University.

The event was hosted by Siddhartha Shankar Ray, India's ambassador to the United States.

All three speakers focused on economic activity between the two countries, which has flourished since India launched its ambitious reform programme in 1991. In the ensuing two and a half years, the United States has become India's largest trading partner, its largest investor and its largest supplier of technology, Ambassador Ray said in his opening comments. In 1993, US exports to India rose 44 per cent and Indian exports to the United States rose 20 per cent, he pointed out.

Bhagwati noted that US investment in India rose by 1,000 million US dollars in 1993, for a total of about 2,000 million dollars. American

companies doing business in India include giants such as Coca-cola, IBM, General Electric, "and the list goes on."

"On human rights, the fundamental fact to remember is that India is, and has always been, democratic," he said. Citing India's free press, strong judiciary, "assertive" electorate, and assorted non-governmental organisations, Bhagwati stressed that its handling of such issues is essentially open and transparent.

On the nuclear issue, Bhagwati argued that India's refusal to join the Non-Proliferation Treaty is based on reasonable concerns for fairness. "India objects to a treaty that exempts the nuclear club members from obligations while imposing them on non-members," he said.

He argued that India "is likely to explore regional options to prevent nuclear proliferation," and that any US role in the process "will have to be by invitation, not by diplomatic meddling."

Sugar production exceeds target

Sugar output in the country has exceeded production target for 1993-94 crushing season and the country's 16 sugar mills have so far produced 2,03,000 tons against a target of 2,02,100 tons, reports BSS.

According to a Sugar and Food Industries Corporation press release 12 sugar mills are still in crushing operation and another 15 thousand tons of sugar is expected to be produced.

This boost in domestic sugar production has come at a time when world market is running critically short of sugar output and supply driving up the sugar price in the international market.

Bangladesh Sugar and Food Industries Corporation (BSFIC) has, however, arranged import of some sugar in addition to its own production to meet the total domestic requirement of three lakh tons per annum.

Last year, a total of 1,87,483 tons of sugar was produced in the country and 51,726 tons of sugar was imported.

Sugar is also being sold smoothly at the rate of 20 to 22 thousand tons per month which is the normal monthly requirement in the country.

Reforms and realities — part 2

By Muhammad Abdul Mazid

Many developing countries in the world have made mixed progress towards restructuring trade reforms and exchange rate policies. In some cases, industrial policies in support of earlier import substitution strategies have maintained a protectionist stance, despite trade reforms. In other cases, inefficient financial systems continue to distort interest rates. In many countries, the failure of fiscal reforms is undermining the adjustment achieved so far and preventing further progress. Unsustainable fiscal deficits create economic uncertainty, contribute to, in many cases, high inflation and subvert domestic financial system.

If reforms are to succeed, investment must respond. Expectations of the business community is crucial to induce investment. The private sector may choose to wait and see, and let the government prove its commitment to the new policies. But this may be a vicious cycle, because if it takes too long to restore confidence for investment, the programme may fail for that reason alone. Credibility can be improved by first achieving macroeconomic stability. Often, the government has no choice but to rebuild its reputation, and then guard it zealously. In this respect, it is important not to promise too much. It may also be necessary for policy makers to overshoot to prove that the reformers really do mean business.

Macroeconomic stability also makes reform of the financial sector more likely to succeed and thus supports the development of capital market that can foster private investment. The aim of financial reform is to increase savings and to see them used more efficiently, effectively and economically. In many cases, it involves removing interest rate ceiling to achieve positive real interest rates, and abolishing regulation that affect the size and condition of bank credit. Close link with world financial markets require domestic interest rates to be high enough relative to international rates for investors to keep their financial assets in the country. For this to work, macroeconomic stability and strong bank supervision are both needed to be in place.

In many cases, adjustment also aims to reverse the bias against agriculture. Taxes in many poor countries discourage domestic food production and encourage food imports. Better incentives and agricultural modernisation can raise the income of the rural poor, increase food security and generate foreign exchange. Recently, attention has also been focused on the short-run effect of adjustment on the poor. Fiscal consolidation often involves cuts in government programmes and a temporary rise in unemployment. Different groups are affected in different ways by fiscal cuts. The needs of the persistently poor and the new poor who have become so by losing jobs, should not be seen on a same angle, nor are those of urban and rural households. Specially in an agrarian economy where the maximum of the population live below the poverty line, special programmes should include temporary measures to protect the groups who are most at risk. This is a worthy goal in its own right; but it may also help to maintain political support for adjustment.

Governments have to reduce their role in the economy and to focus their spending on priority areas. This means curbing spending on the civil service, on subsidies, and on state owned enterprises. Even some governments (for example in Ghana) have cut spending by creating a roster of the civil servants to ensure that only bona fide workers — and no "ghost" or "phantom" workers — are on the payroll. An alternative is to release workers with a lumpsum benefit. This may increase the short run cost of reducing the size of the government and may encourage the better workers to leave, but in some countries it has provided an impetus for the development of private entrepreneurship. A sudden removal of subsidies may not be possible, but targeting them to the truly needy further reduces costs as many subsidies benefit urban dwellers who are relatively well-off. Labour markets play an important role in determining the outcome of adjustment. Downward flexibility of real wages will cushion the effect on output and implementation of policies that are intended to reduce domestic absorption.

Rapid population growth also may offset the improved

economic performance through adjustments. Kenya, Senegal and Somalia, despite a fairly strong economic growth in 1990s, have yielded low or negative growth in per capita GNP. Excessive population growth accelerates the problems of food security, education, urbanisation and environmental degradation.

Traditional economic reform in some cases has been viewed as a reform-trap. At the microeconomic level, the traditional reform is understood as decentralization, which is a mistake in many senses. Decentralization essentially means shifting the locus of decision making without making parallel changes in the basic characteristics of the system, starting with ownership on the one hand and with incentives on the other. Even if at first sight the idea of decentralized economy sounds rational, often it is misused and the outcome cannot overcome the investment. It is a trap because, all other things being equal, shifting the locus of decision making to macroeconomic agents without changing the basic characteristics of the system brings problems than solutions.

Should reform be gradual or a 'shock therapy'? Gradualism may sometimes be justified when reforms face particularly large economic uncertainties. And, by their nature, some reforms take longer to happen than others. But some gradual reforms (for example, in Japan, Korea and Thailand) may have succeeded because they took place in relatively strong and stable economies. In general, the analytical case for speed is strong. Often speed appears to be the best way because swift actions bring benefits of reform more quickly. Speed may also make sense if the political opportunity for reform is unlikely to last. Gradualism may not be feasible for economies in acute crisis or for governments with limited credibility. If the policy shift is sudden, potentially productive employees may be dismissed from their jobs and in such a distorted climate a gradual policy change may reduce the overall costs of adjustment by spreading out the adjustment overtime. Sometimes gradualism allows for political fine tuning. Policymakers have time to learn about the probable gainers and losers and to forestall opposition. Policymakers can diffuse potential opponents by giving them something they want from reform. On the otherhand, in some contexts, rapid action can improve the political sustainability of reform if it prevents a joint assault by special interest groups against changes that are in the general interest. However, the choice of gradual versus rapid reform is also a choice between two sets of risks: rapid reform is likely to lead to greater dislocation in the shortrun, whereas slow reform often creates inconsistencies that thwart further progress.

Expectations of a rapid (how rapid?) and positive (how positive?) supply to the set of drastic reform measures introduced should have a limit. There are the first signals of output losses, of slight decline in industrial output, but one has to wait for better data because the official statistical data do not measure sufficiently the growth of private business that is underway. There is also more or less a political and social problem in respect of response to reform process. It is a question of how to minimize the ability of some individuals to reap the enormous rents that become available in the existing distorted system when the central controls are lifted. Often it becomes difficult to explain to the politicians, who generally are used to detailed plans — full of data and time schedules — that the political decision-makers have to believe that the reform managers know how to play chess and know various opening moves and strategies even without looking at the chessboard.

The timing of reforms involves political considerations. New governments are in a strong position to initiate reforms, they are less obligated to defend the status quo, and their opponents may not yet be well organised. Economic crisis also improves the conditions for reform by strengthening coalitions that favour reform and by helping to subordinate special interests. Output and investment would enlarge the tax base, raise tax revenues, and reduce the budget deficit. Sometimes, even in the face of economic collapse, reform is blocked by the government's key supporters. The

challenge for government is to implement reforms in the face of sometime trenchant political opposition. Streamlining the civil service threatens urban workers with unemployment. Groups that can organise against-reforms are to be reckoned with, the beneficiaries are often dispersed unorganised, making it difficult for the government to count on their support. If output responds quickly to reform programmes, support for the programme will increase and the changes can be consolidated. Rapid growth in exports fuelled reforms in Indonesia, Korea and Turkey. Strong export growth can also help prevent policy reversals caused by balance of payment problems and dwindling foreign exchange reserves. Reforms that improve the investment climate are more likely to be sustained because new investors will add to the forces in support.

A partial reform is much worse than a non-reform. This is a message learnt from the 1990s in Czechoslovakia, also of Central and Eastern Europe in the last two decades. The partial reform in a distorted economy is a tremendous mistake. The dangers of partial reform are also too clear. Stabilisation has caused stagnation for lack of policies to promote investment (as happened in Bolivia and in the Philippines in the 1980s), trade liberalisation failed in economies with distorted factor markets, macroeconomic instability, and inappropriate exchange rate policies (in Argentina, Brazil and Sri Lanka in 1990s, in Peru, Philippines, Portugal, Turkey and Uruguay in the 1970s), domestic deregulation or privatisation has created monopolistic business environment in the absence of trade reforms that check domestic market power (in Poland and Togo in the 1980s). In all these cases, broader programmes attacking interrelated issues would have been more likely to succeed.

A reform programme means a plan for several crucial steps in a proper sequence. It may be compared with chess playing. One must know how to play chess, how to move various pieces on the chessboard and must also know the basic strategies. It may also be compared with conducting an orchestra where harmony and coordination is a must. In implementation of a denationalisation agenda the growth of private sector as a suitable substitute is a must, which is more or less dependent on improved law and order situation. Denationalisation programme, thus, indirectly requires a healthy law and order situation, political stability etc.

Again, waiting for an ambitious, intellectually perfect, all details elaborated reform project is postponing the reform process to eternity. In that situation, there will never be a reform. What is even worse, when the reform process has already started, is to wait for the blueprint. It may lead very quickly to a chaotic disintegration of the economy, as it is evident in the former Soviet Union. Waiting, one way of falling into a reform trap, has always remained a formidable task, requiring political courage and economic vision.

Combining the many different elements is, in itself, enormously difficult. According to the circumstances, the appropriate combination of factors may vary from country to country. And even when reform is well designed, governments have to be sure to encounter unforeseen setbacks, some of them entirely beyond their control. Development is indeed a challenge but, as history tells us, one that can be met.

(Series concluded)

Indonesia to offer incentives to oil sector investors

JAKARTA, Mar 24: Indonesia will offer incentives to encourage oil sector investment in a bid to maintain output levels at around 1.5 million barrels per day over the next five years, the state oil company Pertamina said today, reports AFP.

To ensure success in the oil and gas sector in the sixth five-year development plan, which starts in April, "Pertamina is determined to retain oil output of 1.5 million barrels per day," it said in a statement.

Call money rates range from 2 to 8 pc

Money rates in the call money market during the week ended Wednesday ranged from 2.00 per cent to 8.00 per cent, reports UNB.

During the same period, interest rates offered by the bank on Certificate of Deposits varied from 7.75 per cent to 8.75 per cent.

The bank rate was reduced to 5.50 per cent from 6.00 per cent with effect from March 3, said a press release of Bangladesh Bank yesterday.

SIA wins a string of accolades

Singapore Airlines (SIA), recently declared the best international airline in the world over the past 20 years, continues to win top travel trade and consumer awards for virtually all aspects of its operations, says a press release.

In February this year, Air Transport World (ATW), a leading international aviation journal based in the United States, presented SIA with its 20 Years of Excellence in International Service award for being "the best and most successful airline in the world".

Earlier, SIA was voted both Best Airline for International Business Travel (for the fifth successive year) and Best Transpacific Airline in US-based Business Traveler International magazine's 1993 reader survey.

More recently, SIA has won the Best Airline to Asia award in the 1994 Travel Industry Globe Awards, organised by UK travel trade newspaper Travel Weekly.



Canadian Secretary of State for Asia-Pacific Raymond Chan and High Commissioner to Bangladesh called on Prof Muhammad Yunus, Managing Director, Grameen Bank, recently to discuss poverty related issues of mutual interest.

Asian stock markets close lower

HONG KONG, Mar 24: Asian stock markets closed generally lower Thursday, with share prices tumbling in Hong Kong on profit-taking, reports AP.

The Hang Seng Index, the Hong Kong market's key indicators of blue chips, fell 144.78 points, or 1.5 per cent, to 9,320.75. On Wednesday, the index rose 453.36 points.

In Tokyo, share prices closed higher after four days of losses.

The 225-issue Nikkei Stock Average rose 75.80 points, or 0.38 per cent, closing at 20,037.90. On Wednesday, the average fell 291.43 points or 1.44 per cent.

The Tokyo Stock Price Index of all issues listed on the first section rose 0.49 points, or 0.03 per cent, to 1,614.91.

Meanwhile, the US dollar ended at 106.53 yen, up 0.40 yen from Wednesday's close

and above its overnight New York finish at 106.25 yen.

WELLINGTON: New Zealand share prices closed lower with investors opting out of stocks in favour of rising short-term debt market yields. The NZSE-40 Capital Index fell 33.91 points, or 1.6 per cent, to 2,174.81.

TAIPEI: Share prices closed lower on profit-taking. The market's Weighted Index fell 4.28 points to 5,326.99 after Wednesday's 69-point gain.

MANILA: Share prices closed mixed in busy trading after a flurry of selling late in the session. The Manila composite index of 31 selected issues fell 1.69 points to 2,601.37 after Wednesday's 39-point rally.

SYDNEY: Australian share prices closed lower, dragged down by a slump in the domestic bond market and subdued

stock markets overseas. The All-Ordinaries Index fell 11.1 points to 2,169.8.

SEOUL: Share prices closed mixed in active trading. The Korea Composite Stock Price Index fell 4.06 points to 875.72.

SINGAPORE: Share prices closed lower in choppy trading because of profit-taking. The 30-share Straits Times Industrials Index fell 1.63 point to 2,109.65.

KUALA LUMPUR: Malaysian share prices closed broadly lower as investors took profits on the market's two-day rebound. The Composite Index fell 16.43 points, or 1.6 per cent, to 983.52.

BANGKOK: Thai share prices closed slightly higher despite some profit-taking. The Stock Exchange of Thailand Index rose 0.37 point to 1,286.81.

Share sale to the public: A delayed but judicious decisionBy Abu Ahmed
Guest Columnist

Very recently the government has decided to sell the shares of state-owned oil and gas companies amounting to Taka 100 crores in the next one year period to the public.

This decision deserves attention from all and thanks from the concerned people who feel strongly that share markets give one of the best options to raise capital for industrialisation. Our share market for a long period was kept inactive, sometimes also captive by a vested interest, but the government practically did nothing to remove obstacles from it, or so to say, to bring any reform in it.

Market economy, in a sense, is based on share and stock markets, but this notion was forgotten in Bangladesh. By keeping capital market inactive for a long period, Bangladesh decided to industrialise itself through financing by the government owned DFIs. That strategy flopped, and of late only to the satisfaction of small investors, the government seemed to be changing that policy, and emphasizing more on the need for a capital market expansion. To activate and expand capital market is not easy, it is the outcome of the over-all economic growth. Bangladesh cries loud for transparency and accountability in the economic transactions. Share market, or money when raised from the capital market, can ensure these two elements in a much better way than can

be achieved through any other government control.

Market economy is an economy of competition, but this is also a forgotten notion here, otherwise how foolish we have been to make our industrialisation dependent on DFI-financed capital and ODA-based foreign aid? Various measures at the moment are being taken to make the economy competitive both internally and externally under various structural adjustment programme, but no measure will serve Bangladesh economy any better than putting our share market in a right order. What is a good share market? The one which is competitive. From competitiveness, the meeting of demand for and supply of capital happens to the satisfaction of all. Very often we hear the scandals in the share markets around the world. Scandals may happen in the share markets, but the adverse effects of scandals can be minimised when actions are taken to make the share market competitive. Also a well-regulated share market does not offer that much of a room to the scandalous people to perpetuate their own interests on the innocent investors.

Our neighbours, India and Pakistan, are raising thousands of crores of Taka through share markets. These two countries even successfully floated shares in the foreign markets. To us, this is a dream yet. But our policy-makers

must understand that share-sale is not one of the ways of collecting money for industrialisation, but the only way of doing so for it. We take decisions, but we do not implement them. How many of our state enterprises are privatised till now, though we took decision to that end nearly three years ago? We also decided to sell the shares of the state-owned DFI-BRSR two years back. But did we sell shares of BRSR at all? Whom are we fooling? The World Bank? Perhaps, we are being fooled in return. Foreign investors do not trust us, the World Bank does not trust us. Why? Simply till now we did not prove to be rust-worthy.

Our energy sector is in shambles. This sector loses 50 per cent of its production through its own system. The same in India and Pakistan is at less than 20 per cent. And yet we find faults with World Bank's prescription. The blame for failures should be borne by us, not by any donor agency. The donor agency can counsel us or attach conditions to aid, but we ourselves are to accept counselling and implement the programme. The decision to off-load shares of the public enterprises should have come much earlier. A section of bureaucrats does not want the off-loading of shares, because the status quo serves their purpose. They are in a position to use state property to benefit them personally. These bureaucrats should be

kept at bay. They have already wasted much time no more time should be allowed to be idled away.

The members of the political Govt are expected to carry forward what the government has already decided. Here the failures are even more glaring. Some ministers themselves are confused and do not know how to push through the implementation of govt decisions.

Two years ago, the govt put some of the multinational companies' shares with the Sadharan Bima the government-owned General Insurance Company in the country. What was the logic behind such a decision? No logic existed, simply that served bureaucratic interest. But no one intervened though small investors, many a time, wanted to have them off-loaded to the market for public subscription. Investors responded on a positive way in the past when good shares were put up for public subscription in the market. How much money investors can offer at one time? It depends on who are the persons who are requesting for money, and what business the proposed company is going to do. At the moment, guess work suggests upto Taka 50 to 60 crores the investors can easily supply. Is this money enough for a good industrial project? Of course not, most of the companies in the public sector-control do not have assets more than this. This points to that, easily the

government can use share market for its privatisation drive. If still enough fund is not available from the Bangladeshi investors, the government can easily place a portion of shares with the foreigners who recently showed keen interest in the Bangladesh share market. What better option, the government has for privatisation? No one. But ironically the persons who are entrusted with the process understand only half the matter. These people are experts and know how to keep govt-owned enterprises with it, but least know how to put them to the private sector. From the government offices, these people should be put on a off list, and the persons who know how to handle the matter should be allowed to be in. The share issue to the public will not only bring better prices for govt assets but also broaden the ownership-base of assets in the economy. This is good for income distribution process and also for helping up the consumption. At the moment the country is experiencing a sudden upsurge in the prices of stocks. No criterion, it seems, investors are following when investing in shares and stocks. This is a dangerous trend which may lead the share market to such a high level wherefrom a crash is inevitable. This trend can be warded off partially by supplying the market with good shares. The government can do it easily.