The Daily Star
Founder-Editor : Late S. M. Ali
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Speeding up ADP Implementation

Lag in implementation of Annual Development Programme (ADP) continues to bedevil government's efforts to accelerate public sector investment. The donor community at this year's Paris Club meeting seems to have been in a mellower mood than before. However, slow progress in ADP realization is an issue that drew fire this time too.

The government cannot be blamed for not trying hard enough to improve the lagging pace of ADP utilization. Project prioritization has been streamlined, sanctioning procedure decentralised. Fund release has been made nearly automatic. A plethora of procedural changes have been introduced. In the process, increased financial powers have been delegated to the ADP implementing agencies for contract awards and project expenditures. New procurement guidelines have been issued to speed up the drill. Concrete measures have been adopted to tone up project management. The level of project monitoring has been raised to the highest tier of the government.

Despite all the efforts, the scorecard for ADP realization stubbornly refuses to come up to expectations. Implementation targets continue to be missed and the government keeps on trying new modes all the time. Flexible planning process has appeared as the latest in the series of government moves to spruce up the ADP showing. In short, the new procedure entails reallocating funds from slow moving projects to the fast moving ones. In the short run, the exercise could accelerate utilization of ADP allocations but it could also distort project priorities. Besides, the move would, in all probability, reward inefficiency. The laggards among the implementing agencies could as well rejoice in the situation. The project functionaries would have less work to do since funds would not be made available. All the same, they would continue to draw their remunerations as long as the project is not wound up. And, winding up even slow moving projects looks like a highly unlikely proposition in the present circumstances.

It is said that the state functionaries either do not implement the policy initiatives adopted for improving project execution or are tardy in putting these through. So, reforming the country's administration to make it more responsive to the needs of the economy, is now very much on the agenda for speeding up ADP implementation. As many as three committees are reported to have been working in this area and have already sent their recommendations in. A cabinet committee has now been formed to consider these recommendations and act on them. The process is not going to be an easy one. It will be an arduous task and a time-consuming affair. Meanwhile, the public sector investment programme in the shape of ADP will continue to languish.

The state has all along failed to run the enterprises owned by it efficiently. Likewise, public sector investment programmes are not being realized due to an obvious lack of implementation capability in the government machinery. In such a no-win situation, the authorities might try out another prescription of the donor community and farm out selected infrastructure projects to the private sector for execution on a turnkey basis. Benefits arising from timely completion of projects and saving the leakage, will perhaps outweigh the increase in costs. Besides, such a move would not only activate the private sector but also turn it into a willing partner in development. And the government will be able to cut down its own size too.

Congratulations Mr Hussain

One national daily has called Mr Shahadat Hussain of Rangpur a 'Giant killer'. He has perhaps done better than killing giants — for two years running he has, in a land of hundreds of multi-millionaires and at least a few billionaires, been the only lonely man paying yearly income tax in excess of Taka 10 lakh which sets him high above them all.

Finance Minister Saifur Rahman has, in Wednesday's VIP card awarding function, lamented dolefully on the ways of Bangladesh's opulent ones. He said people who spend millions in just feting friends or pay for electricity amounts nearing a million — were missing from the crowd attending that function.

The nation should feel grateful to Mr Shahadat Hussain for letting us all the knowledge that unknown to the society and outside of the recognised tycoons there is a very broad base of people who can be assessed in terms of lakhs and millions. Mr Hussain, while proving a singularly correct man — taxwise — has gone a step further by saying that his sum of paid tax-money is not quite all that he should be paying.

There are good reasons to emphasize the importance of the unrecognized rich people. It must first be understood that one cannot handle big money or get a hefty cut out of that without validating things with the revenue people. To do that Mr Rahman's suggested streamlining of revenue administration would by itself fall far short of the task. An integrated offensive of incentives would be necessary to make business and individual big earners care for taxcleanliness. Tax evasion should be made very very hurting for the recalcitrant ones. It must be mentioned that there are rich businessmen and big business houses who regularly pay their due taxes. But then there is a large segment who stay outside the system with, sometimes, the active connivance of the tax-men.

How to raise our income tax collection?

All said and done, Mr Shahadat Hussain deserves a very big hand. Congratulations, Mr Hussain on your singular performance. Let yours be a perennial source of inspiration for thousands to come up on their own bringing their millions for the good of the nation.

Govt Expenditures, Real Exchange Rate and Competitiveness

by Abdul Bayes

A competitive or realistic real exchange rate is, perhaps, one of the important indicators for an open economy determined to face competition in the international market. Generally, the nominal exchange rate is the price of one currency (say, Bangladeshi Taka) relative to another currency (say, US$) or a basket of currencies (such as Indian Rs, Pound Sterling, Dollar, Mark etc). In analyzing the role of exchange rate in foreign trade, however, frequent use is made of the real exchange rate which is defined as the ratio of prices of tradables to non-tradables in a particular country. Tradables are exportables and importables the prices of which are determined by their respective world prices, the nominal exchange rate, tariff, subsidy etc. Non-tradables are not traded internationally (e g electricity, Government services and other services) and hence the major determinant of their prices are the domestic inter play of market forces. A realistic and competitive exchange rate goes to imply that the actual exchange rate is not over-valued to a larger degree and hews closely to the free trade equilibrium exchange rate.

For a number of reasons, an over-valued exchange rate is considered a villain of peace in the economy and a depreciation of the rate is the most wanted event. There are many ways of judging a country's competitive edge but the most widely used one is the movement in the real exchange rate (RER) of the country concerned. It is used to evaluate the changes in the incentive schemes and thus a country's overall international price and cost competitiveness. Given production costs, the movement in the RER tend to point to an average profitability of producing tradables vs nontradables. A real exchange rate depreciation implies that the cost of producing a unit of tradable goods in terms of non-tradable decreases. Thus even if there is no changes in the relative prices in the rest of the world, a depreciation would imply that a country's tradables are more competitive than their trading partners. On the other hand, rise in the ratio would imply an appreciation of the currency and *ceteris paribus*, would hint to the gradual erosion in the competitive power of the tradables in the international market.

There are many factors that could upset a country's equilibrium exchange rate. These are: (i) differential rates of technological progress that affect productivity in one sector at a faster pace than the other; (ii) the terms of trade shocks where conventional wisdom holds that a deterioration in the terms of trade (ratio of export to import prices) results in a depreciation of the real exchange rate; (iii) tariff reforms where a reduction in the tariff levels is typically accompanied by a depreciation of the equilibrium exchange rate (in qualitative terms, the effect of import liberalization is similar to that of an improvement in terms of trade); (iv) an increase in the foreign interest rates shaking the equilibrium exchange rate and lastly (v) the fiscal behavior of the Government.

Fiscal Behavior and Competitiveness

During the 1980s, two of the most disconcerting events haunting the donors as well as the policy makers of Bangladesh were, first, a soaring current expenditure of the Government and second, the gradual erosion of the competitive edge of Bangladeshi exports. It could be gleaned from various documents that during FY 81-FY 84, the current expenditure of the Government constituted, on average, 6.2 per cent of GDP. From then on, a monotonic rise in the share was in evidence that moved up to 7.2 per cent of GDP during FY85-FY87 and further to 8.5 per cent of GDP during FY88-FY90. Available evidence also tends to show that Bangladesh's real exchange rate appreciated in FY90 as compared to FY81 indicating a general weakening of the competitive strength of Bangladesh in FY90 as compared to FY81. Apparently, to a lay man, the two might appear mutually exclusive events but actually they are mutually supportive and to say the least, there appears to be a negative correlation between these two variables i e the higher the current expenditure, the lower the competitive power of our products in the international markets and vice versa.

As we all know, the containment of fiscal deficit during FY81-91 was achieved mainly by reducing total expenditure without any sign of improvement in the revenue/GDP ratio. Averaging 9 per cent of GDP during that period, it declined in later period to face the deficit. And known to us also that the decline in total expenditure from as high of about one-fifth of GDP in FY83 to 17 per cent in FY91 was at the expense of investment expenditures that slowed down from 10 per cen in FY81 to 6 per cent in FY90.

When the pattern of public expenditure is more carefully looked at, three characteristics emerge with their important ramifications for the country's competitiveness. First, investment expenditure declined but revenue expenditure increased from, as said earlier, 5.6 per cent to about 9 per cent over the same period of time. Second, the growth in current expenditure was mostly wage related while due emphasis was not given to the expenditure on operation and maintenance (O&M). Third, the decline in the investment expenditure choked off more funds from economic services as well as from physical infrastructure. Thus the share of non-tradables, through wage payments and non-infrastructural expenses, appeared to dominate public expenditure at that period. There are two ways that the public expenditure adjustment favoured the growth of non-tradables. First, revenue expenditure, by definition, involves payment for non-tradables and second, within investment expenditure the share of current expenditure component experienced a rise. Taken together, such public expenditure pattern puts a pressure on domestic price level with a tendency to appreciate the exchange rate.

It thus appears that a Government that lives with more current expenditure and less of investment expenditure does more harm to the competitive edge of the country. The grim scenario depicted above tend to be reversed for the current expenditure pattern of the present Government. While the current expenditure constituted 8.8 per cent of GDP in FY90, the same stood at 8.7 per cen in FY91, 8.3 per cen in FY91 but up at 8.6 per cent in FY93. The ADP allocation stood at 6.4 per cent of GDP in FY90 that fell to 6.2 per cent in FY91 and then picking up to 6.3 per cent in FY92 and to 7 per cent in FY93. During this period, of course, the expenditures on O&M rose sharply by 28 per cent between FY92 and FY93 (a positive sign) but, at the same time, wages and salaries also rose by 19 per cent (negative sign).

It thus follows that the more the expenditure on investment the better it is for the tradables in terms of productivity and prices and in consequence the more is likely to be the real exchange rate staying close to the equilibrium exchange rate. The containment of the current expenditure is direly needed to keep the real exchange rate away from appreciating and thus contributing to more competitiveness. This requirement is as applicable to an economy like the USA as it is for Bangladesh. The loss of US competitive edge on industrial products is said to emanate from soaring current expenditure that had very little impact on productivity. But bear in mind, exchange rate movement is one of several ways of judging a country's competitive strength vis-a-vis trading partners and Government expenditure pattern is one of the several determinants of the movement of the real exchange rate. But very important determinant.

German Foreign Policy : Underpinning by Asia-Pacific Economies

M N Hebbar writes from Bonn

New economic, technological and politically significant gravitational centre emerging in Asia

THE world does not stand still. Forces of change gravitate towards new centres, throwing up different constellations of economic and political energies, and creating new global interrelationships that often herald the beginning of a refreshingly changed set of concepts and attitudes. So has been the recognition, for instance, of the developments in the Asian region and their significance for influencing the outlook of the Europeans.

German foreign policy, always attuned to the reality of the times, has not failed to come to grips with the fact of the unfolding economic might and the breathtaking tempo of its growth in the Asian region. According for a quarter of the world's Gross National Product (GNP) presently — it was just under five per cent thirty years ago — and expected to reach more than one-third of the world's GNP by the turn of the century, the potential of the region is enormous by any standard.

That politics and economics can be intertwined without contradiction is now being underlined by the radical stance of German policy that will see a two-pronged drive, moving towards a closer political understanding with the leaders of the Asian economies on the one hand, and the intensifying of an intelligent and long-term promotion of German economic interests in Asia, on the other.

It has to be made clear, at the outset, that the acceptance of the Asian challenge is by no means an indication of a reversal to German or European provinciality in outlook. Indeed, German energies were expended towards achieving a successful conclusion of the Uruguay Round whose attainment lends a new sharp edge through a freer world trade to European interests in general, and to Germany's in particular. While the European markets remained fully open to Germany's partners, Germany's economic community could also, by the same token, engage in taking advantage of the open markets around the globe and promote trading and industrial collaborations. This economic offensive in Asia would have been unimaginable if the Uruguay Round of the General Agreement on Trade and Tariffs (GATT) had collapsed.

The German government has, therefore, set out on the task of fully supporting the activities of the Asia-Pacific Committee of German industry whose objective is to seek access to Asia markets with German products and technologies. These Asian economies already enjoy easy access to German and European markets for their products and businesses. Furthermore, German businesses, including banks, will strive to strengthen their presence in Asia through long-term investments, given the premises that economic success is predicated on a broadly based presence in the areas of operation.

What is also called for under the circumstances is an intensified economic-technological co-operation where under environmental questions are handled, a dialogue of a political-economic nature is entered into and a deeper, meaningful relationship with the domestic policies of the German partner countries is pursued.

This is not confined merely to the opening of markets and market access but rather beyond to the long-term equilibrium of the two economic systems of a different natures — the German and that of the host country — in order to develop a global interest. "We have a clear interest in the advancement of the liberalisation and reform policies of India, China and Vietnam, that the Asian countries are more open to environmental considerations, and that socio-political issues are also frankly discussed", asserted German Federal Foreign Minister Klaus Kinkel while addressing his country's ambassadors from the Asia-Pacific countries in Bonn recently. The emerging scenario in the region cannot be viewed from the standpoint of development co-operation, or environmental policies or scientific policies alone. Rather, a comprehensive dialogue with new forms and instruments was necessary. "This is how it has led to the founding of high-ranking fora for dialogues with India and Japan", the foreign minister pointed out.

The issues on hand extend far beyond existing bilateral and regional areas, and must also be dealt with at a multilateral level. — GATT, the United Nations and in the G-7 group of industrial countries. The Asian policy will also find articulation in these bodies. This explains why Germany continues to back China's entry into GATT and why it will also seek closer contacts with APEC, the association of Asian-Pacific countries with an economic objective.

In fact, Germany accords a particular significance to specific political relations with the Asia-Pacific region, such as with Japan; a special institutional attachment as with ASEAN (Association of South-East Asian Nations) states; an historic emotional closeness as, for instance, with India; the sense of sharing of a common fate as with Korea; and a natural sort of nearness to Australia and New Zealand. A widening of co-operation, exchange of views, a deepening of relations due to common interests, and friendly relations with all countries of the region is envisaged.

German policy in Asia will naturally see minimum engagements in local crises as compared with those concerning crises and conflicts in Europe. Germany will take an appropriate part in international operations such as in Cambodia and seek a balancing role between partners and friends such as India and Pakistan. Germany will also play an active role in political developments involving a gross violation of human rights.

A second important field of political dialogue with the Asia-Pacific countries would be in the area of social policy. A promotion of the awareness of human rights and support for the advancement of free and participatory organisations, in other words, democratic, political organisations, would be the other plank of the policy. An understanding of the cultural differences between the German and Asian partners and the building of a dialogue on this basis would be imperative.

It is, of course, to be understood that the engagement of Germany in its Asian dimension will not be at the cost of European co-operation. This also meant that as Europeans, Germany will not play against one another on the Asian scene. Politically speaking, there can be only one European Asian policy. However, this would not signify that German policy towards Asia or an Asian state or an Asian group would be determined by any particular interest group and specific historical experiences of any European country. "Our Asia policy will be an important issue during our presidency of the European Union", stated Foreign Minister Klaus Kinkel, referring to the impending presidency by Germany from July 1, 1994.

The strengthening of the European structure is very important for Germany in its relations with Asia. The creation of the European Economic Area will see the largest free trade zone in the world. The agreement with some eastern neighbours and the "Partnership for Peace" concept agreed at the NATO summit will keep Europe's doors open to the east and the west. — *IN*

To the Editor...

Letters for publication in these columns should be addressed to the Editor and legibly written or typed with double space. For reasons of space, short letters are preferred, and all are subject to editing and cuts. Pseudonyms are accepted. However, all communications must bear the writer's real name, signature and address.

Japanese investment

Sir, Japan is an old and major partner in progress of what is now Bangladesh which has benefited through various assistances from it along with its NGOs, like Shapla Neer, Jica, JOECD etc. Besides USA and WB-IMF, ADB is mostly headed by Japanese and this augured well to supplement our ADP. After independence, Japan's gesture in disaster, food, medicine, project assistance for infra-structure, reconstruction, rehabilitation and in our export of leather goods, jute, tea, handicrafts, shrimps and in developing Telecom, TV etc, shows it is a promoter of commercial, economic relations.

In Japan Parliament (Diet), the opposition, Liberal Democratic Party (now) and ruling party JNP saw eye to eye with our PM in Japan where giant trading house chiefs, (Sogosha) entrepreneurs, investors, KAFCO heads met her and appreciated the present macro-economy and democracy. Japan has also a separate EPZ here. Biman now also links Japan. Areas of investment with complete security are identified. Trade ties are of immense benefit to this country despite present deficit. As we are yet to keep pace with high-tech race, our speed in this arena will remain slow for some time. But at present Japanese investment, direct or joint venture, will be gainful in textile, Rly, Telecom, energy, air, oil and mineral exploration, electronics, consumer products like food processing, namely fish, tomato, pineapple, mango and so on.

Investor should know after JMB project, the hitherto underdeveloped north will yet to rapid industrialisation which opportunity they should seize upon and begin working well ahead of time. In tune with Asian aspirations, the day may not be far when our industrialists will strike the iron when it is hot and scientists link gene to schizophrenia residing in chromosome and Mongla port will boom like Chittagong with more exports and less imports; but anachronism must be divorced. Avarice is the spur of industry which needs a pretty good homework. Our great potentials cannot be cracked for the mere absence of consensus on vital issues like better education, violence free society, social and political stability, and its sustenance with the wave of development now sweeping Asia. And let us not backgear our PMs competence, transparency, commitment, assurance given to Japanese Govt. and private sectors.

Ghulam Murshid,
Dhaka.

Abdun Noor's dreams

Sir, Apropos the article 'Dreams that Keep Us Alive' by Mr A S M Abdun Noor vide, The Daily Star of Apr 14, 1994, I have noted that Mr Noor is a brilliant scholar having earned laurels for the motherland in debate in English from the 'heartland of English — Australia.

I had expected that Mr Noor's dreams will definitely be something to write home about (Mr Noor may have definitely visited many other countries) and certainly not the stereo-type "our problems are different so, tailormade economic policy exclusively for us..." stuff of patriotism bereft of pragmatism. In fact this is the standard bogy bashing of donor countries, IMF and WB which was acceptable in the 1970s and 80s especially in the South American and African context.

However, in the 1990s with the emergence of four mini tigers and another 4/5 clearly discernible over the horizon, especially Vietnam, inviting foreign investment and allowing full convertibility of currency etc., a sea change attitude towards the path of progress has been marked. If such ultra nationalist/socialist/communist country like Vietnam deems it fit that, ensuring two square meals is more important then the empty rhetorics of mindless sloganeering and barricading roads and highways, I find no earthly reason why we should continue trekking the beaten path of abject poverty, starvation and mind boggling insanity. If Vietnam can go whole hog for free market economy etc., why cant or should we not at the least go for piece-meal basis, instead of throwing the baby with the bath water as is being frequently suggested? One may conveniently argue that we are doing the minimum. Unfortunately, this is not the case, the minimum expected from us is the system loss eradication strictly in the interest of our country. Why can't there be minimum consensus on this aspect at the least? Even the other day the Finance Minister was reported in the media lamenting over unbridled increase of system loss in the power sector. The different donor agencies have ceased loans for various sectors of our economy, merely for our miserable failings to erect our own Jamuna Bridge(s) simply by arresting such system loss.

Having cleared my gas bills regularly on monthly basis I was dumb struck to find a supplementary bill sent to me by Bakhrabad Gas Systems Ltd., claiming that gas monthly payments has been enhanced to Tk 320/pm from Tk 252/pm with retrospective effect i.e. on and from 1st Jan, 1994. Even DS editorial recently raised the question of validity and necessity of compensating theft in the name of system loss while the opposition had boycotted parliament. Similarly in Oct/Nov, 1993 water bills were enhanced while the nation was pushed to the precipice by opposition boycott and subsequent adjournment of parliament (if I correctly remember). On minute verification of the above bill I found that instead of 10% as announced in various media by the Govt, the precise increase was approximately 27%. Will any learned authority contradict, please? Do we have to blame for this also the British or Pakistani systems? No, something inherently, within our own territorial land and waters.

It is now better left to scholars like Mr Noor to seek and suggest what better way should the nation go for a real economic emancipation.

Salahuddin Jamal
Firozshah, Chittagong

People's welfare

Sir, It is often said that the World Bank (WB) and the International Monetary Fund (IMF) are creating pressure on the Government of Bangladesh (GOB) for opening new economic institutions by closing down certain old ones. It is of course true that certain old institutions are not yielding desired profit to national economy. But there is the other side too. Closing of old organisations will cause thousands to lose job.

Hence we would sincerely request the WB and IMF authorities to kindly suggest the GOB on how to re-organize the old organizations by retaining the manpower set up. After all the ultimate objective of financial aid is to ensure people's welfare.

M Zahidul Haque
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OPINION

Richard Milhous Nixon

I have read with a good deal of interest the two pieces regarding the passing of former US President Richard Nixon appearing in the issue of The Daily Star on Wednesday, April 27. I would like to draw attention to the write-up by Arshad-uz-Zaman, in which the writer contends in paragraph three that 'Ike groomed him (Nixon) for the presidency'. The truth is that General Eisenhower was never quite inclined to grooming Richard Nixon. Indeed, if one remembers the incidents leading to the by now well-known Checkers speech of 1952, the Republican presidential candidate left it to Nixon to withdraw from the ticket or stay on if he could convince the country that he had done little that was wrong. Again, towards the end of his presidency — and that was a time when Nixon was busy waging a hard battle against the Democrats' John F Kennedy — Eisenhower quite undermined his vice president when he told the press that he needed a week to come up with any recollections of any Nixon contribution to US policy between 1953 and 1960. Surely one would agree with me when I suggest that it was a very poor way of grooming Mr Nixon for the White House!

Mr Arshad-uz-Zaman makes a little mistake elsewhere. He quotes Nixon as telling the press after losing the California gubernatorial race in 1962: 'you will have no more Nixon to write against'. What Nixon said was this: 'You won't have Nixon to kick around any more because, gentlemen, this is my last press conference'. And let me inform the writer that Henry Kissinger did not become Secretary of State and National Security Advisor the day Richard Nixon took office as President. He was only the latter, while William P Rogers held the former job, until 1973, when HAK took over as boss at the State Department.

Where Mr S A M S Kibria's piece is concerned, let me just say that there really is no hard evidence that President Nixon and Dr Kissinger 'actively' opposed the birth of Bangladesh. One could suggest that at the time, the American establishment was more concerned about the opening to China, through Pakistan of course — which was again consistent with geo-political realities as Washington perceived them to be. Kissinger's *The White House Years* and Nixon's *RN: The Memoirs of Richard Nixon* make it clear that the presence of the Seventh Fleet in the Bay of Bengal was not designed to thwart the liberation of Bangladesh. The fundamental American policy, as the fall of Dhaka became a distinct possibility, was to prevent the Indian forces from destroying what remained of Pakistan in the west. One must remember that West Pakistan had been rendered important by Indian fire, and even bombs were being rained on Karachi through prior announcement by the Indian military. Mrs Gandhi finally reined her troops in when channels of communication were finally established between the White House and the Kremlin, and the latter stepped in to ask the Indian leadership to show mercy to the rump Pakistan that existed, now that Bangladesh had been born.

One last point. One does not judge a man's place in history by a single act, or an absence of it. For us in Bangladesh, it will always be painful remembering that President Nixon did not exert the kind of influence he should have on the Pakistani military junta in 1971. But should we be judging Nixon's career by that failure to help us? Any analysis of the path travelled by a statesman, which Nixon certainly was, must take a broad view of things. Mr Kibria ought to be told that eulogising Nixon is in no way a contribution to the distortion of Bangladesh's history. Our history and Nixon's life have never run parallel.

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