The Daily Star
BUSINESS
DHAKA SATURDAY, MAY 7, 1994

UN report on Bangladesh

Production of rice doubles

Although Bangladesh is now virtually self-sufficient in food, millions still go hungry as a sizeable segment of the country's workforce is either underemployed or unemployed, reports UNB.

The paradox has been portrayed in a United Nations report published recently, which said 21.8 per cent of people in the country are still underemployed and 2 per cent unemployed.

"The most difficult issue now is not production but consumption," the UN report remarked pointing at social disparity and unequal distribution of food.

In 1993, food production was an all-time high, prices were low, and the country was virtually self-sufficient in rice. But millions still go hungry, it observed.

Rice production has increased steadily over the recent decades — between 1960 and 1992 — doubling from 9.7 million to 18.5 million metric tons. But with lower prices 10 per cent of households during the lean season were getting 60 per cent of their calorie requirement.

Since 1972, the average price of rice has fallen by around 30 per cent enabling many more families to buy enough food, but still 70 per cent of families of the country remained undernourished, the report pointed out.

Even after attaining self-sufficiency in food in rural areas 70 per cent of farm households are net purchasers of food.

The UN report suggests that for low-income families in both rural and urban areas the only long-term hope of food security is productive force and in the short-term their consumption could be increased through the government's Public Food Distribution System (PFDS).

It, however, lauded PFDS through Food for Work Programme (FFW), Vulnerable Group Development Programme (VGDP) and Rural Maintenance Programme (RMP), and said food can play a useful development role.

By the PFDS the government in 1992 distributed 2.35 million metric tons, which is 13 per cent of the country's food — though not all alleviates poverty. More than half passes through channels which do not directly help the poor, often serving as perks for government employees and the armed forces.

The FFW alone in 1992 offered 500,000 metric tons of grain to around 3 million seasonal labourers working on infrastructure projects, while through VGDP around 7 kg of wheat per week was given to some 400,000 women over a 2-year period and 60,000 destitute women were benefited from the RMP.

The report maintains that these three programmes have the advantage that they are targeted at the poor and bring benefits beyond increases in food consumption.

"These programmes will not only build infrastructure and increase income, but if they increase nutritional levels — particularly for young children — they can be one of the soundest long-term investments the country could make," the world body viewed.

One of the largest components of the PFDS was 'palli' (rural) rationing, which was intended as a safety net programme for the poor. But it suffered from widespread abuse with many traders simply selling the subsidized rice in open market, which compelled the government to abolish the scheme in 1992.

The report also maintained that if everyone in Bangladesh were to be fed adequately, this would certainly require an increase in output. Production would need to go up by about 1.7 million tons, which the report maintained is well within the country's capabilities.

The country's food production is increasing at around 5 per cent annually. Only around one-third of the land is currently irrigated and some estimates suggest that the extension of minor irrigation schemes together with increases in yields and cropping intensity could permit output to rise over the next 20 years to around 32 million tons.

The country's food requirement is currently about 2 million tons a year.

It suggested that the Public Food Distribution System can help protect some vulnerable groups, but in long term only the creation of sufficient employment opportunities will ensure that all Bangladeshis get enough food to eat.

Garments export to Canada rises, says envoy

The export of Bangladeshi garments to Canada increased very considerably during the last few years. This was stated by Jon J Scott, Canadian High Commissioner in Bangladesh while addressing the Bangladesh Apparel and Textile Exposition BATEXPO-94 at Sonargaon hotel yesterday, says a press release.

The High Commissioner said 84 per cent of Bangladesh exports last year to Canada were garments, up from 13 per cent in 1984. Bangladesh exported garments worth 22 million Canadian dollars in 1992. Last year the figure sharply rose to 31 million Canadian dollars.

He said a warm country like Bangladesh has achieved remarkable success in manufacturing winter garments for Canadian consumers.

The High Commissioner assured Bangladeshi manufacturers that the impact of NAFTA on Bangladeshi garment export to Canada will be minimal as Mexico exports only 0.5 per cent of Canada's clothing imports. He said NAFTA did not erect any barriers to other countries — it merely removed barriers between member countries.

Maintain good governance to ensure aid flows, North to South

NICE, France, May 6: Western donor countries strongly hinted here this week that Asia's poorer nations face the prospect of aid flows drying up unless they commit themselves to "good governance", reports AFP.

The idea was firmly put on record during the annual meeting of the Asian Development Bank (ADB) which ended here yesterday, despite firm opposition from China and widespread concern among other poorer ADB members.

Led by the United States, the donor community, working through the Paris-based Development Assistance Committee (DAC), adopted this notion as a basic condition for bilateral aid early in the 1990s.

They have also put it on the agenda of other multilateral financial institutions, including the World Bank and, less explicitly, the International Monetary Fund (IMF).

The European Bank for Reconstruction and Development (EBRD) set up in 1991 to help formerly communist eastern Europe in the transition to a market-based economy, even had the political requirements of pluralistic democracy and respect for human rights written into its constitution.

Good governance figured among an 11-point list of conditions set by the United States for going along with a 100 per cent increase in the capital of the Asian Development Bank (ADB), Western officials said.

The US-led attempt to establish a formal link with the capital increase, to 48 billion dollars, which will be officially announced in two weeks, triggered a row between the donors and developing ADB members.

The most vocal opposition came from China and India, and Western officials privately said they felt these and other ADB members might have a variety of political reasons for rejecting any linkage as an infringement on national sovereignty.

China, for one, has been engaged in a lengthy dispute with the US administration over trade and human rights.

Western officials nevertheless said they were confident the issue would be sorted out, sooner or later, because most ADB borrowers badly need whatever funds they can obtain through the bank or its soft-loan wing, the Asian Development Fund (ADF).

From the donors' point of view, deepening budget deficits linked with the recession in the West have made it harder to "sell" development aid appropriations to their parliaments and taxpayers.

Ole Loensmann Poulsen, Danish State Secretary for Foreign Affairs, said as the ADB's general debate wound up Thursday that the policy guidelines for using aid money were "not irrelevant" for Denmark, but were "fundamental" to its decision-making process.

In its broader definition, spelt out in the general debate by the NORDIC countries while the US omitted any reference to the issue, good governance includes such sensitive elements as respect for human rights and democratic rule.

It also includes such notions as fair, efficient and transparent public management, accountability towards the population, controlling corruption and cutting "excessive" military spending.

The "Eurofighter 2000", a joint development of four European countries, makes a safe landing at Warton Aerodrome, Wednesday, following its first public flight in Great Britain. — AFP photo

'Russian stock markets will develop rapidly'

WASHINGTON, May 6: The Russian stock markets will develop rapidly to thrust Russia ahead in developing markets, said Dimitri Vassiliev, Vice President of the Russian Stock Commission Thursday, reports AFP.

Russia will "become in the relatively near term, one of the world's most dynamic emerging markets," said Vassiliev who is visiting Washington at the invitation of the US Agency for International Development (USAID).

"The financial world outside Russia has yet to fully appreciate the significance of this fact," he added.

The strong capital demand by privatized enterprises and strong savings rate among the Russian people create the conditions for accelerated development. Some 60 to 70 stock markets exist in 20 Russian cities, primarily Moscow and St. Petersburg.

Nearly half of the privatized enterprises are planning to issue stocks to raise capital, said Vassiliev. He estimated around 600 investment funds exist in Russia where the idea of stock markets was unheard of in 1991.

Vassiliev said he regrets the weak level of foreign participation in Russian enterprises.

He estimated the foreign investment rate to be roughly seven to 10 per cent. "There has been a lot of competition for it. So far we have not been too successful," said Vassiliev.

Petronas may go with LNG plant without Nippon

KUALA LUMPUR, May 6: Petronas, Malaysia state-owned oil firm, Thursday said it might go ahead with its third Liquefied Natural Gas (LNG) plant without Japan's Nippon Oil Co. which wants to delay the project because of weak demand, reports AFP.

"It may not be necessary to have Nippon Oil as a partner," Bernama news agency quoted an unidentified Petronas official as saying.

The venture was to have been 70 per cent controlled by Petronas and 30 per cent by Nippon Oil and US-based Occidental Petroleum Corp.

The official said Petronas was sure occidental would not withdraw from the deal.

The three parties discovered substantial gas reserves in offshore central Lucnoia in Malaysia's eastern Sarawak state, and were to have started production of at least five million tonnes of LNG a year in 1998.

But Nippon Oil has reportedly indicated it hoped for a deferment until 2000 because of the current weak market for gas.

The Nihon Keizai Shimbun last week reported that Nippon oil wanted to delay the project because major consumers of LNG in Japan had already secured their need until the end of the century.

Petronas announced in February that the project would go ahead

Castro for redistribution of world's wealth

BRIDGETOWN, Barbados, May 6: Cuban President Fidel Castro on Thursday accused rich nations of worsening the problems of poor countries through apathy and greed, and called for a redistribution of the world's wealth, reports AP.

"While the powerful are discussing the new world distribution, the small and poor nations are trying to figure out how to survive in the next decade," Castro said at the UN Global Conference on Sustainable Development of Small Island Nations.

The conference is exploring ways to manage resources so they are maintained for future generations, focusing on economic and environmental issues shared by small island states. Major issues have included climate change and sea-level rise.

The Cuban leader said sustainable development is not possible unless wealth is redistributed to narrow the gap between rich and poor.

"The problem for overdeveloped societies is not growth but distribution, not only among themselves but among all."

IA suffers $99m loss

NEW DELHI, May 6: Indian Airlines (IA) suffered a loss of 99 million dollars in the fiscal year ended March 31, Civil Aviation Minister Ghulam Nabi Azad said yesterday, reports AFP.

But the state-owned airline has not yet decided to raise fares despite mounting competition from private carriers, the minister informed parliament in a statement.

Indian Airlines, which serves 56 domestic and nine foreign destinations, was 66.2 million dollars in the red in 1991-92 and 65 million dollars in 1992-93.

Shawkat's call to take part in uplift

Food Minister Mir Shawkat Ali called upon the people to be united under the umbrella of Bangladesh Nationalist Party (BNP) for helping accelerating the pace of uplift activities, reports UNB.

He was addressing a gathering of a cross section of people at Lalbagh in the city Thursday evening.

The food minister underscored the need for people's active participation in all kind of national development activities for the greater interest of the country.

Riyadh's stock market set to pick up sharply

ABU DHABI, May 6: Saudi Arabia's stock market is set to pick up sharply as low oil prices are forcing the government to give way to the private sector after decades of state domination, experts say, reports AFP.

Although the Saudi market is already the busiest in the Middle-East, share dealing is still smothered by high government ownership in trading institutions and restriction of share-trade to national investors.

But this was offset by the speculative nature of the market, a phenomenon which is virtually absent in most exchanges in the region. Speculation has steadily pushed up turnover in Saudi Arabia over the past few years, peaking at around 4.65 billion dollars in 1993 compared with 3.6 billion dollars in 1992 and nearly 2.26 billion dollars in 1991.

"There is no doubt that the Saudi market will see a boom in the next years as the private sector continues to take the initiative in domestic development due to low oil prices," said Henry Azzam, Chief Economist at the National Commercial Bank, the biggest bank in Saudi Arabia.

Tissa J M Jayasingha, Director General of Commercialisation Division of the Ministry of Finance in Sri Lanka, exchanging views with Dhaka Stock Exchange Chairman Kurshid Alam (C) at the DSE Board Room in the city Wednesday. Councillors Khwaja Abdul Quddus, Shahiq Khan and Md Rakibur Rahman are also seen in the picture.

Foreign investment in Bangladesh, Vietnam: Why the difference?

By Matthew Morey

(Following is the remaining part of the article published yesterday).

The Domestic Economy

One of the problems with foreign investment is that it is pro-cyclical. That is when the domestic economy is fairing well foreign investment comes in, when the economy is on a downturn, investment does not come. In other words, when a country needs investment it doesn't get it, and when it doesn't need foreign investment, it receives the investment. Bangladesh and Vietnam foreign investment levels both seem to follow this pattern.

In Bangladesh, the Gross Domestic Product was 4.2 per cent in fiscal year 1991/92 and 4.3 per cent fiscal year 1992/93. Add to this the large informal sector growth which seems to have taken place, and Bangladesh seems to have been growing at a relatively impressive rate. But if one calculates the per capita GDP growth the improvement is probably not quite as impressive. Indeed, much of the growth in the economy may simply be that the vast growth in the population (2.3 per cent annual growth by the last measurement) is driving the growth in the economy. Further, in terms of development countries, a four or five per cent growth rate is not considered that high.

If inflation is any measure of the growth of the economy, then Bangladesh is certainly not growing very quickly; inflation last year was at a level around 1.4 per cent. While stabilization in the inflation rate and in other economic variables, is what the World Bank and the International Monetary Fund would like, foreign investors are obviously not terribly impressed. Nor does it seem that domestic investors are quite taken by the Bangladeshi economy. In spite of all the reforms, the total domestic investment to GDP ratio in Bangladesh declined from 12.2 per cent in 1988/89 to 10.4 per cent in 1991/92, while the proportion of domestic private investment in GDP fell from 6.5 per cent to 5.7 per cent during the same period. To illustrate how low this rate is, development experts claim that a 20 per cent overall investment to GDP is necessary for significant growth in an economy. The low rate of domestic investment in Bangladesh forces a prospective foreign investor to ask the question, "why should I invest if the people of the country — the people who know the culture and customs — are not investing".

Part of the problem in terms of domestic private investment in Bangladesh is that interest rates are simply too high. Despite a very low inflation rate, nominal rates are in the neighbourhood of 12 to 13 per cent. Hence real interest rates are over 10 per cent. By comparison real interest rates in the US are in the neighbourhood of five per cent. It goes without saying that until the interest rates come down, not a great deal of domestic investment will take place.

The story in Vietnam is again quite different. In the mid-1980's the country was on the verge of complete starvation. Hence, in desperation, the Communist Party rulers introduced economic reforms. To begin with they allowed some revival of free enterprise in Ho Chi Minh City (formerly known as Saigon). Sometime later they nationally allowed private, principally family owned businesses to exist, gave more managerial freedom, and cut subsidies to state firms. They also starting allowing the prices of some commodities, including rice, to freely float. Most importantly, they broke up many of the agricultural collectives and let family farmers take long-term leases on the land. Moreover, in the late 1980's, Vietnam began to do what the IMF had requested them to do, that is, cut the bureaucracy and adhere to tight monetary policy.

The result of these reforms has been nothing short of amazing. Vietnam has progressed from a nation of severe food shortages to now being the world's third largest exporter of rice (behind only Thailand and the United States). Ho Chi Minh City has in an economic sense become Saigon again, as the city has returned to it's old very aggressive, entrepreneurial self. Even in Hanoi, development is hard to miss; bicycles are being replaced by cars and motorbikes, high-rises and glass hotels have started springing up. Overall, the country's growth rate has been more than seven per cent each of the last three years, while inflation has fallen to single digit after being in the double digits as late as 1990. Even the Vietnamese currency, the dong, has stabilised and held its value against the US dollar. Hence, with all these positive signs arising out of the economic reforms, it is not that surprising that foreign investors have shown interest in Vietnam.

The Commitment to the Reforms and Investor's Views on the Bureaucracy of the Two Countries

Another reason for the difference in foreign investment levels between Bangladesh and Vietnam is that investors may see differences in efforts to reform the economy. That is, the commitment to open the economy to foreign investment may be considered weaker in Bangladesh than in Vietnam.

In Bangladesh, although the investment reforms have been made on paper, in practice, much is still left to be done. Prospective foreign investors still complain heavily about the red tape, corruption and delays. Although it is reasonable that these reform measures will take some time to work their way through the bureaucracy, the speed of adjustment in Bangladesh has been slow in comparison with its neighbouring countries of Pakistan and India. This suggests something else may be awry with the Bangladesh bureaucracy. A possible explanation may simply be that the bureaucracy is not convinced that the government themselves really believes in the reforms. Or it could be that bureaucracy feels that the current government is not that strong nor stable. The recent December 1993 mayor elections can only strengthen this latter point.

Vietnam, like Bangladesh has a terribly torturous bureaucracy — stories are often told that bribes must be paid out throughout each level of the bureaucracy, and how the bureaucracy wants to retain the status quo. However, because of the breakneck growth the country has gone through in recent years, and the massive changes that the country has hence experienced, investors may feel more secure that the reforms are there to stay. Indeed, the large amounts of investment that have gone into the country are the best sign that foreign investors are secure in the future of the reforms. Moreover, the feeling among investors in Vietnam is that they are willing to take the frustrations of dealing with the bureaucracy in the short term because the medium and long term have such exciting growth opportunities. In fact, this is the major difference between Bangladesh and Vietnam. In Bangladesh, because the investment climate is not as rosy, the bureaucratic hassles are seen as just one of many problems an investor must face in order to get into an economy that is unsure of itself. While in Vietnam, the bureaucracy is simply a hurdle one must make to be in position to capitalize on the economic growth that has come and is bound to continue.

Prospects for future investment in Bangladesh

Bangladesh simply cannot compete with Vietnam now in terms of drawing foreign investment; it neither has the resources nor investment drawing assets that Vietnam has. However, this does not mean that Bangladesh cannot improve its foreign investment levels. **Bangladesh has characteristics that investors should be interested in huge amounts of very low cost unskilled labour; a large relatively undeveloped domestic market; a port to the sea; a relatively strong English language base; and reform measures that have made it — at least on paper — much easier to invest here. Yet for Bangladesh to attract foreign investment, it must solve a number of problems or it will continue to lag well beyond other countries — much less Vietnam — in foreign investment levels.**

Firstly, Bangladesh must attempt to conquer its image problem. No matter how well the economy performs, no matter how much the infrastructure improves, and no matter how much the bureaucratic nightmare disappears, Bangladesh will still not attract foreign investment unless it can reverse the disaster area, basket case opinion the outside world has of it.

This requires public relations campaigns, some of which have begun. Indeed, recently there have been a number of advertisements in major Asian newspapers and magazines that have been trying to do just this. But the effort cannot stop there. Foreign investors need to be brought to Bangladesh so that they can see for themselves that Bangladesh is not all that they have heard from the outside. In this regard the positive opinion of foreign investors already in Bangladesh becomes increasingly important. Prospective investors will come to these entrenched investors and ask their opinions on the investment climate here. If entrenched investors do not respond positively, it will be hard for new investment to come in. Hence, every effort should be made to keep the investors who already here happy and satisfied. Moreover, situations like the KAFCO project with the Japanese should be done in a much more diplomatic way so to foster better future relations. How can a country expect to court foreign investment when its government is seen as extremely difficult and inconsistent to deal with? Along these same lines, the organization that is supposed to serve and aid prospective foreign investors in Bangladesh, the Bangladesh Board of Investment, needs to be streamlined. How can Bangladesh expect to compete with other Asian countries for foreign investment when registration of foreign investment in Bangladesh is known to take weeks longer than many other developing countries?

Secondly, although the economy has stabilized in recent years, and many macroeconomic variables are improving, domestic investment must improve for foreign investment to improve. How this can occur is a matter of debate. Certainly lowering interest rates play a role in this but one must also consider that political stability goes hand in hand with investor confidence. One possible part of a solution to this problem may be for the government to provide more incentives for people to invest. **The recent decision by the government to sell the shares of state owned oil and gas companies is certainly a move in the right direction. Yet more needs to be done. In particular, it seems appropriate that Bangladesh should have more incentives specifically geared toward non-resident Bangladeshis. These people generally have large assets and more importantly are familiar with the country's customs and culture.**

Thirdly, Bangladesh must continue to improve its infrastructure. This not only involves its roads ports and bridge facilities, but in particular its energy and telecommunication services. These two areas have been especially mentioned as weak points by the foreign investors who have just recently submitted investment proposals to the Bangladesh Board of Investment. In addition much effort and resources need to be put into human resource development. Bangladesh still has a dearth of mid-level management workers and technicians; important things foreign investors look for when deciding to put their money.

Lastly, it goes without saying that Bangladesh needs political stability in order to attain higher foreign investment levels. More political upheaval will only further add to the image of constant political turmoil that most outsiders have of Bangladesh. Also, political stability and confidence are needed to further promote the economic reforms through the bureaucracy.

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