The Daily Star
BUSINESS



DHAKA WEDNESDAY, JULY 6, 1994

# 100 more industrial plots in CEPZ likely soon

From Nurul Alam

CHITTAGONG, July 5: About 100 more plots will be ready by the end of this year to house additional industrial units in the country's first operational Export Processing Zone (EPZ) based here.

According to official sources, these plots are now being developed at CEPZ under its third phase expansion programme embarked on January this year in the backdrop of more queries from foreign investors.

The authorities started the 3rd phase expansion works on 44 acres of land and most of the works were nearing completion.

Official sources said a total of 450 acres of land was acquired by the authority for Chittagong Export Processing Zone (CEPZ) and out of it, 236 plots were readied by developing 343 acres of land under the first and second phase programmes implemented separately between 1980 and 1990.

Already 85 per cent of those plots were sanctioned and occupied by the investors.

Chittagong Export Processing zone which became operational in 1983 had so far drawn investments of over 100 million US dollars, they said.

A total of 53 industrial units, mostly on the basis of hundred per cent foreign investment, are now operating at CEPZ with full production, they added.

According to reports, the CEPZ provided employments to over 10,000 workers.

Meanwhile, seven more new industrial units are being set up here and some others are lying in the pipeline.

The exports from CEPZ have recorded a rapid growth that fetched huge foreign currency earnings.

Exports from CEPZ rose to 127.75 million US dollars in 92-93 fiscal year from 0.16 million US dollars only in 83-84 fiscal, the year of commissioning.

## Manila's gross int'l reserves stand at all-time high

MANILA, July 5: The Philippines' gross international reserves stood at an all-time high of 7.318 billion dollars as of June 27, up 4.48 per cent from a month earlier, the central bank said today, reports AFP.

The latest figure is equivalent to about 3.6 months' wroth of imports of goods and services, the central bank said in its annual report.

It said the country was expected to post a balance of payments surplus of 942 million dollars in the first half, up form 616 million dollars in the first quarter.

"Key factors underlying balance of payments strength are strong export growth, sustained remittances, and substantial voluntary capital inflows," it said. The bank reported that the Philippines has raised 915 million dollars from the international capital markets over the past year.

The financing arrangements, which included convertible bonds, benefitted mostly power generation and telecommunications projects, it added.

The country's debt service ratio in relation to export earnings was now less than 19 per cent, the report said.

It said the total resources of all banks and non banks with quasi-banking functions in the Philippines crossed the one trillion-peso mark (37.04 billion dollars) in March.

Of its own financial performance, the central bank reported unaudited net first quarter profits of 4.239 billion pesos, the central bank earned 6.311 billion pesos in the second half of 1993.

State Minister for Civil Aviation and Tourism Abdul Mannan offering munajat prior to the departure of Biman's 2nd frequency inaugural flight to New York at Zia International Airport Monday midnight. Secretary of Civil Aviation and Tourism Nooruddin Al Masood and Managing Director of Biman Ahbab Ahmad were, among others, present.

## GATT magazine lauds Dhaka's stand on LDCs

A magazine of General Agreement on Tariff and Trade (GATT), published from Geneva, highly appreciated Bangladesh's stand on protection of Least Developed Country's (LDC's) interest in the world trade, reports UNB.

The magazine — 'Focus' a news-letter of GATT, published the article titled "The World Trade Organisation is Born" last May.

The article outlined Bangladesh's stand on signing of the Uruguay Round Final Agreement, held in Marrakesh on April 15.

Commerce Minister M Shamsul Islam represented Bangladesh in the trade conference.

The article mentioned the Minister's speech which indicated the prestigious share of LDC's in world trade forum, and considered it very important in the context of present trend of global economy.

# BRTC plans to make it viable

Bangladesh Road Transport Corporation looks like winning its struggle for survival as it estimated an operational profit of about Taka 1.5 crore in 1993-94, reports UNB.

After years of cumulative losses, the corporation earned Taka 1.17 crore in the first ten months of the just-over fiscal year, opening a new page in the balance sheet of the state-run transport sector, used to be dubbed as a white elephant.

BRTC had been incurring losses till 1992-93 when the balance sheet put the annual loss at Taka 7.60 crore.

Officials attribute the corporation's dramatic reversal to profitability to its rigorous three-year (1991-93) restructuring programme, primarily aiming at relieving it from surplus manpower.

Some 1,450 personnel, 40 per cent of the total workforce, left the corporation in 1993-94 on voluntary retirement under the 'golden handshake' programme, prescribed by donors to cut the overstaffed public enterprises to size.

While the size of BRTC fleet was gradually waning due to a virtual freeze on adding new vehicles to it since 1990, workforce remained the same, overdrawing from its earning. Until March 1993, some 3,509 people were on the pay role when the BRTC fleet dwindled to 127 buses and 129 trucks.

To make BRTC a viable and strong organisation, the authorities have planned to add 155 buses, including 30 doubledeckers, and 100 trucks to its fleet in the current fiscal.

Import of 30 doubledeckers to be pressed into service in three metropolitan cities, are at the final stage, said an official of the corporation.

Proposals to purchase 25 airconditioned coaches, 100 deluxe buses and 100 trucks are awaiting green signal from the government.

"If the budget is not available from the government," said the official, "the corporation has plans to generate a fund of Taka 15 crore of its own to purchase 50 fuel tankers and 100 deluxe buses."

The plans include sale of unutilised land in Mirpur, Khulna, Chittagong and Jessore and letting out shops at depots in Kalyanpur, Narsingdi and Barisal, sale of all condemned vehicles, and construction of a five-star hotel at the Joar Shahara depot.

## BIBM workshop concludes

A workshop on 'Public Relations and Marketing of Bank Services' and a course on "Trainers' Training" were concluded at Bangladesh Institute of Bank Management (BIBM) in the city yesterday, says a press release.

The workshop highlighted the concepts, techniques, strategies relating to public relations and marketing of bank services while the course aimed at developing knowledge and expertise about methods of identifying training needs and designing training programme.

The Director General of BIBM, AHM Nurul Islam Choudhuri presided over the concluding sessions.

## Australian retail trade rises by 2.2 pc in May

SYDNEY, July 5: The value of retail trade in Australia rose 2.2 per cent in May to a seasonally adjusted 8.626 billion Australian dollars (6.3 billion US), the Australian Bureau of Statistics said Tuesday, reports AFP.

The figure was up from an adjusted 8.442 billion dollars in April and it marked a five per cent increase on the May 1993 total of 8.217 billion dollars, the official statistician said.

In the bureau's trend series, which smooths out monthly blips, retail trade grew by 0.2 per cent in the month to May and by 5.7 per cent during the year to May.

The trend data showed that "the growth rate has continued to slows," the bureau said. The monthly growth rate has fallen from 0.8 per cent in December 1993 to 0.2 per cent in May 1994.

In raw figures the value of retail trade rose 2.2 per cent to 8.326 billion dollars in May from 8.146 billion dollars the month before and by 4.4 per cent from May 1993's total of 7.971 billion dollars.

# World Bank lending commitments decline by 12.2 pc

WASHINGTON, July 5: The World Bank says its lending commitments for the fiscal year that ended June 30 totalled 20,800 million dollars, down 2,900 million dollars or 12.2 per cent from fiscal 1993's commitments of 23,700 million dollars, according to USIS.

The decline in lending was confined almost entirely to the "hard" close-to-market-rate, loan commitments of the bank, which amounted to 14,200 million dollars for 124 projects. This compares to fiscal 1993's total of 16,900 million dollars for 122 projects, the bank announced recently.

The "soft" loans made by its affiliate, the International Development Association, amounted to 6,600 million dollars for 104 projects compared to fiscal 1993's 6,800 million dollars for 123 projects.

Bank officials attribute the decline in lending to the greater availability of private capital in developing countries.

The officials said that in calendar 1993 total private flows of capital to developing countries amounted to 175,000 million dollars. They said that in several cases, the Bank used "cofinancing mechanisms to catalyze private sector funding."

The Bank's lending commitments in fiscal 1994 by region were:

— Middle East and North Africa: A total of 1,200 million dollars, down 600 million dollars from fiscal 1993's 1,800 million dollars. The decline was due to a cut in lending to Algeria because of domestic difficulties and reduced lending to Egypt because of that country's expanded access to other sources of concessional aid and a strengthening of its foreign exchange reserves.

— South Asia: A total of 2,400 million dollars, down 1,000 million dollars from fiscal 1993's 3,400 million dollars. A substantial inflow of foreign private capital and the deferral of several sectoral reform operations until fiscal 1995 contributed to lower bank lending.

— Africa: A total of 2,800 million dollars, the same level as fiscal 1993. Out of 60 projects in the region, 24 were in Francophone countries where currencies tied to the French franc have been devalued. The Bank is extending support for economic reforms in those countries and for protection of social services targeted at the poor.

— East Asia and the Pacific: A total of 6,000 million dollars, up 400 million dollars from fiscal 1993's 5,600 million dollars. Most of the loans went to projects in agriculture, transportation, power and education.

— Latin America and the Caribbean: A total of 4,700 million dollars, down 1,100 million dollars from fiscal 1993's 5,800 million dollars. Many countries have moved beyond the adjustment phase, reducing the need for large adjustment loans.

## Beijing makes unemployment insurance compulsory

BEIJING, July 5: China, moving further away from the lifetime job security of the socialist state, made unemployment insurance compulsory in its capital from July 1, the official Xinhua news agency said Monday, reports Reuter.

Where Chinese workers once relied on their jobs for housing, medical care, gifts of food and pensions, nothing can be taken for granted now under market-style reforms.

With bankruptcy looming for many inefficient and money-losing state enterprises, a new kind of safety net is needed to try to ensure social stability.

Xinhua said unemployment insurance in Beijing will cover employees in enterprises owned by the central government, the military and other provinces and cities, employees of cooperative, township and share-holding enterprises and various kinds of joint ventures.

Also included are employees of the Chinese side of overseas-financed enterprises and Beijing citizens employed in private and individual enterprises.

Employees will have to pay in a certain sum monthly and the enterprises will also have to contribute a percentage of their workers' salaries as unemployment insurance funds.

If an enterprise is bankrupted, streamlined or abolished by the state, or is employees are dismissed, the unemployed worker will get three to 24 months of unemployment benefits and a percentage of medical fees, the news agency said.

## Workshop on ODM held in Barisal

BARISAL, July 5: A workshop on Organisational Development and Management (ODM) was held at Brojomohan University College on Friday, reports UNB.

The aim of the workshop, organised by the college authorities with the help of Voluntary Health Services Society, is to set up a social research cell in the Sociology Department of the college.

Principal of the university college Prof Maqbuluddin Ahmed inaugurated the workshop as chief guest while Prof Amir Hossain Mia, Chairman of Sociology Department presided the function.

Participants from Barisal Development Society (BDS), VHSS, CARE, Usha, BUKE and ADAB took part in the programme.

Mir Mohammad Nasiruddin, Chairman, Board of Directors of Janata Bank, inaugurating its 899th branch at the University Grants Commission Bhaban at Agargaon in the city yesterday. Professor Shamsul Haque, Chairman of the Commission, Jalilur Rahman Choudhury, Managing Director of the bank are also seen in the picture.

# BSRS recovers Tk 34 cr loan during '93-94 FY

Bangladesh Shilpa Rin Sangstha (BSRS) recovered from its projects a total amount of Tk 34 crore during 1993-94 financial year which is 55 per cent higher compared to the recovery of previous financial year and 48 per cent higher compared to the average recovery of last three financial years, reports BSS.

This was disclosed at a meeting of the board of directors of BSRS held here on Monday at its head office with Dr. Abdullah Farouk in the chair, a BSRS press release said.

During FY 1993-94 the sangstha approved rescheduling and restructuring of 27 projects including 14 'sick' projects to make them viable. During 1993-94 BSRS sanctioned an amount of Tk. 6.40 crore and disbursed an amount of Taka 4.44 crore to various projects.

Under the consortium arrangement for financing large industrial enterprises Sonali Bank, Janata Bank, and BSRS as the lead bank, have sanctioned loans for setting up of a modern cotton spinning mills at Gazipur at a total cost of about Taka 26.00 crore. This is the first project ever financed under such arrangement in the country.

Apart from repayment of loan of Taka 14.65 crore directly to the development partners and Bangladesh Bank, the entire outstanding loan liabilities of BSRS to the government amounting to Taka 81.05 crore has been paid off during 1993-94.

## Colombia will use coffee stockpiles to meet demands

BOGOTA, July 5: Colombia will draw from its five million warehoused sacks of coffee to meet an extra international market demand caused by the recent freeze in Brazil, the director of the national coffee board said yesterday, reports AFP.

Jorge Cardenas, of the National Coffee Federation (Fedecafe), said much of Colombia's coffee reserves were export-quality. Colombia is the world's number two coffee producer.

But Cárdenas warned against overproduction. He said Colombia's output should hit its traditional 15 million sacks, a total that dipped by 2.5 million sacks in recent years due to weak international market prices.

# *Bangladesh at crossroads in its quest for social, economic development*

by Shekhar Shah

*(Following is the second instalment of the article published on page 10 of our yesterday's issue).*

**Private Investment**

To attain a higher growth path that is sustainable, as well as to alleviate the current aggregate demand problem, private investment must rise. For this, it is critical that the government ensure that its medium-to-long-term macroeconomic policy framework and its specific reform actions and pronouncements are credible to the private sector. Entrepreneurs must be firmly persuaded that the reforms are irreversible, and likely to be effective, before they will begin to invest substantially in internationally competitive, export-oriented manufacturing. Adjustment experience elsewhere has shown that private investment responds to a complex set of policy and business expectations, including confidence, which can take long to consolidate. Bangladesh is no exception to this experience. The government needs to address three areas of policy concern in bolstering its reform credibility.

*First*, the government can greatly enhance confidence in its reforms by accelerating its trade liberalization programme. Non-tariff barriers have been mostly removed. Ongoing tariff liberalization has brought customs duties plus import licence fees down to a weighted-by-imports rate of 30 per cent in FY '93, further reductions have taken place in FY '94, and the government has announced its intention to continue rationalizing the tariff structure over FY '95-97. Accelerating this schedule — possibly reaching the nominal protection levels of 10 to 15 per cent prevailing in internationally competitive developing countries within the next year — would act as a precommitment device to ensure the consistency of future government actions, as well as to lay out clearly an outward-oriented adjustment path for the private sector. Experience in East Asia suggests the critical difference such precommitment has made to the success of economic policies. In its absence, private enterprises may perceive a high probability that exports will fail to develop, and consequently that the reforms would be reversed.

Although customs revenues appear to have gone up during the first four months of FY '94, faster tariff liberalization could, depending on the buoyancy of imports, reduce customs revenue. Tariff liberalization, whether it is done decisively now or incrementally over a number of years, will inevitably present a potential short-run tradeoff with tax revenues. It should be recognized that the government, despite its best efforts and the existence of a well-prioritized ADP over the past three years, has found itself repeatedly unable to spend public revenues as planned. Hence, an accelerated, decisive trade liberalization, and the underlying objective of accelerating structural adjustment, should not be held hostage to short-run revenue needs that may have been established in relation to unrealistic targets for the ADP. This is particularly so if the government adheres to its highly desirable objective of consolidating the gains from tax reform and strengthening tax administration and collection (particularly from the VAT). As private investment and ADP implementation lift the economy out of its current low aggregate demand, imports will increase, not least because of the high import intensity of investment, thereby further reducing possible losses of customs revenue from accelerated tariff liberalization.

Finally, accelerated tariff liberalization would provide a quicker replacement of trade-distorting customs duties with trade-neutral VAT and income taxes.

It should be emphasized that trade liberalization and the government's export-oriented growth strategy, even if well-implemented, cannot succeed unless competitiveness improves. This requires that there must be flexible management of the exchange rate, steps to link real wages with productivity, and other domestic cost reducing measures. All three elements are necessary if export competitiveness vis-a-vis actual and potential competitors is to be maintained and enhanced.

*Second*, the government should liberalize interest rates further, removing or reducing the deposit rate floor so that lending rates can have one less reason to remain as high as the present 10 to 12 per cent real levels. The government should also lower the interest rates on virtually risk-free postal and savings certificates, since this causes financial disintermediation from the banking system, and potentially dampens interest in equity markets. Given overlapping and complex weaknesses in the enabling environment for the private sector, it is difficult to estimate the private sector's investment response, but evidence clearly suggests that it would be positive, particularly in conjunction with the crowding-in effect of prioritized ADP expenditures and their fiscal stimulus. While the government's concern about raising private savings and offering high returns to households is welcome, the evidence is clear that total savings (meaning savings not just in financial instruments but all income that is not consumed) responds more to income growth than to interest rates. Thus, to the extent that further lowering deposit interest rates will bring down lending rates and boost investment and income growth, total savings over the medium term would be higher.

*Third*, there is a vital need to ensure that the government follows a steady policy toward the private sector. The more consistent government policy actions and pronouncements relating to the private sector are, the more impact will accelerated trade liberalization and a decline in lending rates have on private investment decisions. There is still a strong tendency for government statements to leave its policy stance toward the private sector unclear. This lack of clarity and consistency clouds private business expectations. Worse still, policy changes that promise effective decontrol of private enterprise, but which are then delayed in practice, shake the confidence of the private sector and therefore must be avoided.

**Public Investment**

In the short run, the government can best meet the investment challenge by making an urgent, all-out effort to improve the implementation of the ADP. The early indications for the first half of FY '94 are not encouraging. Much effort has been spent on prioritizing the ADP so that its quality can be high and it can be focussed on infrastructure, education, health, and population. In the past, the binding constraint has been local Taka resources. This is no longer the case, with the VAT bringing in considerable additional revenues. But, with its failure to expand the ADP rapidly (in FY '93 ADP was Tk 70 billion, Tk 16.5 billion short of the originally planned ADP, and 85 per cent of the subsequently lowered operational ADP target), the government has failed to reap the benefits of its past good work. This represents a fundamental shortcoming of public administration, located principally in the line ministries and agencies that are responsible for project implementation, as well as in the overall policy framework for infrastructure and the utilities. This public investment failure spills over into private investment decisions, since there is strong evidence to suggest that as in other countries, high quality public investment in Bangladesh crowds in private investment.

The government has introduced several procedural changes over the past two years to improve ADP project execution. It has tried to simplify procurement decisions, improve personnel policies relating to key project staff, and has increased financial authorities for contract awards and project expenditures. However, a recent survey of project management during FY '93 showed that on average procurement decisions continue to take 8 to 34 months, nearly half of all projects were still managed by a part-time director, and decisions on contracts of less than Taka five crore still continue to be sent to the ministries for approval. Action is now urgently required in three areas. *First*, high-level intervention, monitoring, and follow-through are needed to ensure that procedural reforms are effectively implemented. *Second*, selective administrative and civil service reforms that impact the ADP should be expedited, particularly in agencies that sit on the critical path of ADP implementation; this could be done, for example, by selectively posting only high-performing civil servants to these agencies and ensuring the stability of their tenure.

*Third*, the private sector should be actively encouraged to play a greater role in executing ADP projects, through, for example, contracting out project supervision, and by drawing them into the planning of projects. ADP execution is also affected by policy and institutional weaknesses in infrastructure and the utilities sectors. Feeble capacity for reform in these government agencies, and the need to develop appropriate sector strategies before private entry can start, is holding back more aggressive public investment through new public private partnerships. Faster progress in dealing with the deep rooted problems in these agencies is therefore all the more important (see below).

If, instead of raising public investment substantially, the government takes the easier route of returning, to the public consumption profligacy of earlier years (for example, through generous public wage awards), or to wasteful, low quality projects in the ADP, the hard work of public resource management will have been wasted. Similar slides into macroeconomic populism have had disastrous consequences, in terms of low growth and fiscal imbalances, in Latin American and Sub-Saharan Africa, and must be avoided. This will require that the political commitment to the reforms not be allowed to weaken. Otherwise, without a solid foundation of physical and human capital on which to sustain longterm growth, the current window of opportunity for accelerated reforms would inexorably close, as the economy fails to make a successful transition from stabilization to rapid growth.

To sustain the rapid acceleration of the ADP, it is imperative that the government maintain the policy momentum on tax reforms, particularly in the administration of the VAT. The expansion of the VAT in the early years was easier because it was replacing excise duties. Efforts to extend its domestic coverage and improve compliance now need to be redoubled. Tax revenue collection needs to be monitored carefully. Preliminary evidence for the first five month of FY '94 shows that tax revenue collection from domestic indirect taxes may be slowing down relative to the previous year and the government's annual tax target. Unless there is a pickup in the second half of FY '94, such a slowdown would be a cause for concern.

*To be continued*