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Zahir reviews BCIC performance

A M Zahiruddin Khan, Minister for Industries has reviewed the on-going development programmes of Bangladesh Chemical Industries Corporation at BCIC Bhaban yesterday, says a press release.

The progress in the manufacture and installation of machinery for processing and procurement of green jute, production of pulp and paper from green jute, procurement of machinery and equipment under STABEX fund of EEC for implementing pulp and paper project at Sylhet Pulp and Paper Mills were reviewed at a meeting.

The feasibility of exporting green jute-based pulp was examined in detail.

Production performance during the month of July, 94 was also reviewed.

In the month, BCIC enterprises combinedly produced goods worth Tk 114.35 crore against Tk 92.39 crore during the same period of '93, indicating an increase of Tk 21.96 crore.

In the meeting, the procedure for production of leather contract system through joint venture was discussed and necessary decision was taken.

The review meeting was attended by AHM Abdul Hye, Secretary, Syed Yousuf Hossain, Addl. Secretary, Ministry of Industries, Waseq al-Azad, Chairman and Directors of BCIC, Managing Directors of Khulna Newsprint Mills, Khulna Hardboard Mills, Sylhet Pulp and Paper Mills, North Bengal Paper Mills and the concerned senior officers of the corporation.

Industries Minister A M Zahiruddin Khan reviewing the performance of Bangladesh Chemical Industries Corporation at BCIC Bhaban in the city yesterday. AHM Abdul Hye, Secretary, Ministry of Industries, Waseq al-Azad, Chairman, and directors of the corporation are seen in the picture.

Italians keen to invest in Bangladesh

Italian entrepreneurs are keen to invest in the industrial sector as well as to expand trade relation with Bangladesh, reports UNB.

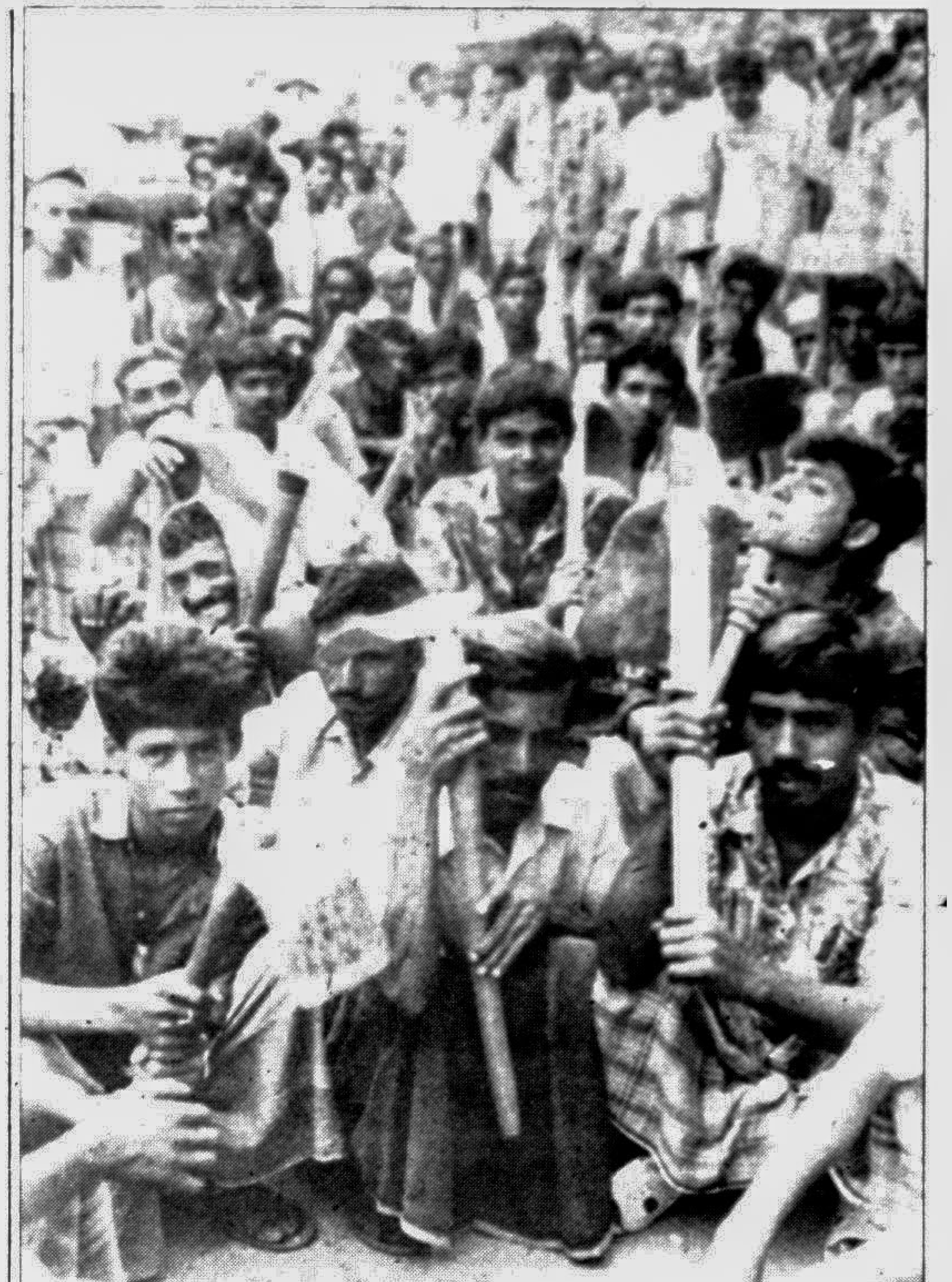
This was stated by the visiting Secretary General of Italian Institute for Asia Antonio Loche when he called on Commerce Minister M Shamsul Islam at the latter's Secretariat office Sunday.

During the discussion, Loche said the Institute, which is working for the development of bilateral relations between Bangladesh and Italy, would organise a seminar to disseminate information on different facilities available in the business and investment sector of Bangladesh.

The seminar, to be patronised by the Italian government, would be held in Italy in December next, he added.

The Commerce Minister mentioned the liberal economic policies being pursued by the present government. Proper coordination, exchange of trade mission and timely execution of contract could strengthen the existing bilateral relations between the two countries, he said.

The minister hoped that the upcoming seminar in Italy would be able to identify new areas of boosting trade and investment.



Maghbazar, as time slips by, turning into a sea of day-labourers unlike other residential areas. By the time the dawn comes, a good number of them seen converging there to sell labour as the only means to support survival. In case of inclement weather, most of them have to go back without employment. So, failing to avail permanent job opportunities, they prefer to trifle away time in idle pursuit not at all endeavouring to earn livelihood.

— Star photo by AKM Mohsin

Sarwardy new DMD of Federal Insurance

A K M Sarwardy Chowdhury has been promoted to the post of Deputy Managing Director of Federal Insurance Company Limited, says a press release.

A career insurance man, he has been serving with the industry for the past 23 years.

He held various positions in the then Eastern Insurance Company, Sadharan Bima Corporation, Green Delta Insurance Company Ltd. Prior to the promotion, he was the senior Executive Vice President of the company.

Brazil's anti-drought project overflowing with protests

BRASILIA, Aug 15: A vast anti-drought project to direct water from one of Brazil's biggest rivers is overflowing with protests even before the first shovel of dirt is dug, reports Reuter.

Critics call the two billion dollar plan to direct water from the Sao Francisco River to four northeastern states an election-year pork-barrel scheme that can hurt an infant anti-inflation plan.

But backers say it is the only way to combat droughts that regularly punish millions of people in the backward region. The worst brought this century ended only at the start of 1994.

"The problem of drought can only be solved by water for irrigation," Regional Integration Minister Aluizio Alves, the project's chief supporter, told Reuters.

"What ever drought that came along would have its effects cut 80 per cent."

Approved last month by President Itamar Franco, work is scheduled to start in October and its first phase will be finished by March next year. It would be among the biggest public works projects by the cash-strapped government in years.

The plan calls for up to 280 cubic metres of water to be pumped each second over a low mountain range. It then would flow downhill through 160 miles (240 km) of concrete canals, 1,400 miles (2,150 km) of dry river beds and more than 50 reservoirs.

When completed, the water would irrigate two million acres (800,000 ha) and benefit six million people in the impoverished northeastern states of Ceara, Rio Grande Do Norte, Pernambuco and Paraiba, Alves said.

Brazil holds elections in October and Alves said he wanted the project underway so that the government that took office in January could not stop it.

"Our fight is against the shortage of time. We only have a few months to get the works started in a way that will make them irreversible," he said.

The project involving the 1,500-mile-long (2,600-km-long) river is largely backed by area governors

Feeder service on Mongla-Colombo route soon

From Nurul Alam

CHITTAGONG, Aug 15: The Bangladesh Shipping Corporation (BSC) plans to introduce a feeder service on the Mongla-Colombo route shortly, official sources said.

The BSC, with a fleet of 18 ocean-going vessels of 2,67,000 DWT has already carried out a feasibility study on the economic viability of the service.

Four BSC ships will be pressed into this feeder service to operate in a circular way on the Mongla-Colombo, Colombo-Singapore and Singapore-Chittagong routes.

The BSC is introducing the service in a bid to widen its services and network.

The BSC is already running a feeder service between Chittagong and Singapore with two vessels — the MV Banglar Moni and Banglar Robi. This service resumed from January 28, 1993, after a suspension of three years since 1990. It was introduced in March 1986.

The feeder service on the Chittagong-Singapore route was suspended because of continuous loss incurred by the national liner. But lately this service has been making profits, prompting the authorities to introduce another feeder service on the Mongla-Colombo route.

Presently, BSC ships are operating on three other routes. These are the Bangladesh (BD)-UK-Continental, BD-Far East-Japan and Bangladesh-Pakistan-West Asia-Gulf [illegible]

Taiwan's forex reserves grow

TAIPEI, Aug 15: Taiwan's foreign exchange reserves grew to a record 90.14 billion dollars at the end of June due to the strengthened Japanese yen and German mark, Taiwan's central bank said Monday, reports AP.

June's reserves exceeded the previous record of 89.5 billion dollars in September 1992, the Central Bank of China said.

The central bank said Taiwan's reserves, deposited in foreign banks, were the world's highest after Japan.

In May, Taiwan's reserves were worth 87.79 billion dollars, while Japan's were 106.91 billion dollars, and Germany's 82.15 billion dollars, the bank said. It did not have June figures for Germany and Japan.

India has middle-class market of 180m people

NEW DELHI, Aug 15: New government figures show that India's middle class, eagerly eyed by business for its immense buying potential, may be around 20 per cent of the population — a massive 180 million people, reports Reuter.

The size of the Indian middle class has been much debated over the last three years, after the government unleashed radical reforms to a socialist-dominated economy.

The slashing of government controls and a series of measures to move towards a market economy largely depends on the spending power of the burgeoning middle class in a country of more than 900 million.

An elaborate national sample survey by the Planning Ministry shows spending patterns which suggests the middle class is around 20 per cent of the population, said officials who made the figures available to Reuters at the weekend.

The survey, carried out between 1990 and 1993, shows that 19.2 per cent of India's urban families spent at least 2,450 rupees (80 dollars) per month and 20.8 per cent of rural families spent at least 1,600 rupees (50 dollars) per month.

Analysts say such spending qualifies these families as middle class.

"At 1,500 rupees you would be sitting pretty in rural areas if you don't pay rent, and in urban areas you would be safe at 2,000 rupees per month," said market analyst P N Vijay.

"I would put the middle class population at 200 million."

Income levels in dollar terms are low in India, but local prices are also low, and the rupee goes much further than dollar conversions would suggest.

The International Monetary Fund (IMF) has ranked India as the sixth largest economy in terms of purchasing power of the local currency.

The big names of the fast food and beverage world and other consumer-oriented companies have flocked to India since reforms began on the notion that, no matter what the numbers, India will produce a market of a size that cannot be ignored.

People in the small towns and villages pay little rent.

Asian stock markets close mixed

HONG KONG, Aug 15: Asian stock markets closed mixed Monday, with share prices rising slightly in Hong Kong on bargain hunting, reports AP.

The Hang Seng Index, the Hong Kong market's key indicator of blue chips, rose 21.57 points, or 0.2 per cent, closing at 9,486.13. On Friday, the index had slumped 59 points.

Brokers attributed the rise to bargain-hunting following the market's decline in the last two sessions.

In Tokyo, share prices closed mixed in thin trading.

Tokyo's 225-issue Nikkei Stock Average fell 37.50 points, or 0.18 per cent, to close at 20,625.33. On Friday, the average fell 157.53 points, or 0.76 per cent, to 20,663.83.

The Tokyo Stock Price Index of all issues listed on the first section was up a bare 0.60 point, negligible in percentage terms, to 1,652.38.

An estimated 150 million shares changed hands on the first section, down considerably from Friday's 240 million shares.

Meanwhile, the US dollar closed at 100.17 yen, down 0.13 yen from Friday's Tokyo close but up 0.02 yen from its overnight New York finish.

The stock market was closed in South Korea for a holiday.

WELLINGTON: New Zealand share prices closed higher after the ruling National Party won a parliamentary seat in a by-election. The NZSE-40 Capital Index rose 25.70 points to 2,097.64.

TAEPEI: Share prices closed lower for the fifth straight session in moderate trading. The market's Weighted Index fell 20.34 points to 6,543.57.

MANILA: Share prices closed lower in active trading because of profit-taking after three straight sessions of gains. The Philippines' unified composite index of 31 selected issues fell 1.41 points to 3,005.95 following Friday's 30-point rise.

SYDNEY: Australian share prices closed slightly higher. The All Ordinaries Index rose 3.9 points to 2,055.7.

SINGAPORE: Share prices closed lower on profit taking. The 30-share Straits Times Industrials Index fell 16.04 points to 2,301.75.

KUALA LUMPUR: Malaysian share prices closed lower in moderate trading because of continued profit taking. The Kuala Lumpur Stock Exchange's Composite Index fell 12.49 points to 1,092.80.

BANGKOK: Thai share prices closed higher in active trading. The Stock Exchange of Thailand index rose 27.92 points to 1,453.41.

Perspectives on Privatisation efforts in Bangladesh

By Samir Asaf

The term 'privatisation' has been used to describe an array of actions designed to broaden the scope of private sector activity. Essentially, it is only a process which covers the transfer from the public to the private sector of the ownership and/or control of productive assets, their allocation and pricing, and the entitlement of the residual profit-flows generated by them.

So, what are the objectives of privatisation? The first, and often most urgent one is that of public finance rationalisation: reducing the net budgetary transfers and eliminating contingent external debt liabilities. The second set of objectives include financial deepening, and the distributive effects: functions to improve the supply-side performance, use of public-sector divestiture to crowd-in a nascent private sector as a means through which the local capital markets may be developed and domestic resource mobilisation enhanced. But closer examination of privatisation experience over the past decade suggests in reality that the process and its outcomes are neither as simple nor as straightforward as often envisaged.

The World Bank's attempts towards structural adjustment, and the IMF's shorter-run approach for stabilisation have required liberalisation and deregulation of the economy as necessary preconditions. Privatisation does not negate these designs, it, in fact, promotes *"state shrinkage"* which is consistent with the market oriented approach of the neo-classicists who believe in *laissez faire* and the Walrasian *tatonnement* process which promises to clear markets of residual information asymmetries. Greater emphasis on free markets, and on privatisation as a means to making markets work better both occupy a central place in the thinking of the international donor community and feature prominently in its financial support for structural adjustment. For Bangladesh, the World Bank suggests a three-pronged approach to deal with the poor performance of the state owned enterprises (SOEs): The three elements of the proposed strategy are accelerated privatisation of SOEs in the manufacturing sector; early privatisation of selected larger SOEs in the utilities, transport, and finance sectors; and greater private participation in infrastructure and enterprise reform for SOEs that will remain under public ownership. Regarding the latter, Build Operate Own and/or Build Operate Transfer type schemes have been recommended.

The results of the studies on the post-privatisation performance of firms in Bangladesh have been inconclusive on the question of relative efficiency. The principal finding is that private sector firms slightly out-performed those of the public sector in terms of "static efficiency" while no significant differences have been observed in terms of "intertemporal or dynamic efficiency". Such a state of affairs is necessarily unstable.

State-owned enterprises in Bangladesh account for a significant share (over 25 per cent) of total fixed capital formation but a meager 6 per cent of GDP. From a maximum of 350 SOEs in 1974-75, successive divestments have rendered to date some 225 SOEs still in operation, currently employing about 600,000 workers, which is 12.5 per cent of the formally employed and only 1.1 per cent of the total labour force of the country. Over-employment is therefore, rampant in these SOEs. Labour unions represent 1.5 million members constituting three per cent of the workforce. The Directorate of Labour has provided estimates of the aggregate extent of unionisation at a significant 29 per cent. The formal sector wage rates have consequently been appreciating in real terms over the last decade without any corresponding increase in productivity. This upward trend must be arrested if we are to retain the advantage of low-cost labour, and the centrally determined wage structure replaced by one which is segmented by sector and enterprise, linking wages to productivity. Labour rationalisation and its contingent social costs can thus be minimised following the transfer. Of a total of 497 units divested since independence, 49 per cent of the divested units have closed down since divestiture. Closure of these units relate to an improvement in allocative efficiency towards more market-sensitive use of assets in the private sector. The top 10 loss-making SOEs in the FY92-FY93 are listed here in descending order: PDB, BJMC, BJC, BSEC, BTMC, BSFIC, DESA, BRTC, BADC and BCIC.

At the April 1993 Aid Group Meeting, the understanding for FY94 is that the Government of Bangladesh (GOB) would accelerate privatisation of SOEs by completing privatisation of at least 20 industrial units and 24 textile mills expeditiously; by carrying out the first phase of privatisation under the jute sector reform, and by contracting-out initial private investments in electricity, gas, and telecommunications sectors. Assuming gains in efficiency following privatisation, growth rates will rise if the same level of investment is retained. And as the private propensity to invest is greater than that of the public sector, a decline in total investment ratio is not to be anticipated in the aftermath of a privatisation programme.

Nevertheless, in terms of intended improvements in fiscal and economic benefits, the outcome has been disappointing because the inadequacies of the developing economic environment in which they took place overwhelmed the benefits that were supposed to result. In particular, reasonably competitive domestic markets for most goods and services, well-developed capital markets with breadth, depth, and absorptive capacity, and sound regulatory structures, utilities, and infrastructures in general are the essential prerequisites for a successful privatisation effort.

More should not be expected from privatisation than it can reasonably deliver, especially in our limiting enabling environment, coupled with social and economic infrastructure constraints and uncertain investment climate.

One of the most persistent misconceptions in this topic concerns the fiscal effects of privatisation. Divestiture of SOEs is, in itself, necessary but not a sufficient condition for economic growth which is but a piece of the pie called economic development. In terms of its financial implications, the sale will result in the public and private sectors adjusting their relative liquidity positions, leaving their respective net worth unaltered. The private sector thus reduces its holdings of financial assets and acquires equity in privatised enterprises, whilst the government reduces its equity and increases its holding of those financial assets. Since in each case, the transaction involves a change only in the composition of the sectors' net wealth, and not its level, the fiscal impact must be neutral. This is the basic argument of the so-called "neutrality result". Therefore, it should be abundantly clear that privatisation is essentially a simple liquidity transformation of the government's net worth, and the sale of these assets do not necessarily generate any real effects.

What then, are the incentives to privatise? The profit stream that can be extracted from the asset in the hands of private owners should, it is argued, *ceteris paribus*, be higher than if operated under public ownership. Privatisation thus increases total factor productivity in the economy, and its real public finance impact arises out of the additional tax revenues generated from the enhanced value of the assets realised under private ownership. The indirect effects this will have on reducing future tax distortions elsewhere in the economy represent positive second-order effects for public finance.

The New Industrial Policy in Bangladesh, announced in August 1991, has made some progress in removing constraints such as non-tariff trade restrictions; rationalising tariff rates; improving export incentives; opening new sectors to private investment; relaxing exchange controls; and preparing reforms of business laws. Transparency in policy making is thus a crucial precursor to public confidence in the system 2.5 trillion US dollars of viable projects are to be financed in Asia in the next decade. Bangladesh will face fierce competition to attract foreign investment. The risks of political interference must therefore be minimised. Along with labour market reform, the promising infant industries should be concurrently allowed to mature before removal of protection. Similar strategies were followed in India, Malaysia, Singapore, and Hong Kong. However, the formal equity markets in these states were relatively more developed and sophisticated when their economies were in a similar stage of development compared to that of Bangladesh.

Since open tendering has been the predominant method of sale, the Dhaka Stock Exchange has hitherto not been adequately utilised in the privatisations. Although economic power tends to be centripetal, to avoid concentration of wealth in the hands of the plutocrats, the yearly absorptive capacity of the formal equity market should be increased from the current 50-60 million to a potential 100 million US dollars. Where the transaction is too small to float, however, private treaty sales should be considered. Since open tendering does not necessarily maximise price, bidders should be pre-qualified and the marketing well publicised. Curb markets warrant consideration since they represent a significant source of funds for the privatisation process. The sequencing strategy for the remaining divestitures should be quick in intent but gradual in form. The so-called "white elephants" with negative net worth should be financially restructured or liquidated forthwith. The remaining larger utilities, most of which are inherently natural monopolies, must pursue commercial rather than social objectives. With hard budget constraints, profit maximisation must be their foremost objective if they are to survive.

Privatisation, properly structured, can yield substantial and enduring benefits including higher productivity and growth of output and employment. However, it is not a panacea unless it is accompanied by substantial reform of the enabling and regulatory environment. And in fact, there are very definite limits to what it can achieve. Privatisation does not absolve the public sector of the challenge of economic management. Stringent regulation of actual and potential monopoly power, and the creation of an appropriate enabling environment in which the forces of competition will flourish are essential adjuncts to privatisation.