The Daily Star BUSINESS

DHAKA SATURDAY, SEPTEMBER 10, 1994

Delhi's export growth slows

NEW DELHI, Sept 9: India's export growth slowed between April and July, the government reported yesterday, dealing a blow to hopes of a surge in economic expansion, reports Reuter.

Exports rose 8.3 per cent to 7.49 billion US dollars from 6.92 billion dollars in the same four month period in 1993, it said in a statement.

But growth was well short of the 27.2 per cent rate in April-July 1993 compared with the same period in 1992 and below the 10 per cent inflation rate.

In addition imports surged almost 10 per cent to 8.08 billion dollars meaning the country's trade deficit widened to 594.7 million dollars in April-July from 438 million dollars during the same period in 1993.

Aluminium price increases

LONDON, Sept 9: Aluminium prices rose to three and a half years high yesterday and traders were expecting the metal to notch 1,600 U.S dollars a ton soon, reports Xinhua.

Aluminum at London Metal Exchange (LME) was trade around 1,583 U.S dollars a ton, up 6.50 dollars from Wednesday's after a steady rally from 1,500 U.S dollars since the end of August.

Metal analysts said producers would have good selling at 1,600 U.S dollars, while speculators would take action at 1,598 U.S dollars. The market attention is centering on the 1,600 dollar level.

Aluminium prices surged by some 32 per cent since January when major producers agreed to cut its output. Reduction totalling more than 1.2 million tons has already occurred.

Germany's economic recovery fully underway

WIESBADEN, Germany, Sept 9: Germany's economic recovery was fully under way in the first half of this year while inflation remained low, government data published Thursday show, reports AP.

The Federal Statistics Office said gross domestic product (GDP) in all of Germany grew a price adjusted 2.8 per cent in the first half of 1994 from a year earlier. The growth rate was 2.2 per cent in western Germany and 8.9 per cent in the eastern states.

The government cited higher foreign demand for German products and stronger investment in the building sector as the most important factors behind the growth in GDP — the measurement of the total value of a nation's goods and services less some foreign receipts.

India awaits chance to join APEC, says Rao

SINGAPORE, Sept 9: India is waiting for an opportunity to join an Asia-Pacific trading group that accounts for much of the country's foreign trade, the Indian prime minister said Friday, reports AP.

"I don't want to knock on closed doors," Prime Minister PV Narasimha Rao told reporters when asked if India wanted to join the Asia Pacific Economic Cooperation forum, or APEC, which accounts for nearly half of the world's trade.

"But the moment I see that there is a chance of entry," India will take it, Rao said before he left Singapore after a three-day visit to woo investors into the newly opened Indian market.

APEC includes the six ASEAN states — Philippines, Thailand, Indonesia, Malaysia, Brunei and Singapore — as well as Pacific rim nations including the United States, Mexico, Japan and South Korea.

Last November, they decided not to take on new members for another three years.

A high-profile group of Indian businessmen who accompanied Rao Friday signed 12 agreements worth 266 million dollars for joint ventures with Singapore businesses in diverse fields such as aquaculture, banking, construction, telecommunication and bakery.

Indian companies also used the visit as a reconnaissance of Singapore for future use as a springboard for doing business with the Southeast Asian and Pacific regions.

Singapore Prime Minister Goh Chok Tong said "the door (to APEC) is not locked. It may not be open, but is not locked. It is waiting for the right opportunity for India to come in."

Goh said his visit to India in January "sparked off a mild India fever" in Singapore. "I believe (Rao's) visit ... raised the temperature of the fever."

After coming to power in 1991, Rao overturned India's traditional state-controlled economy and opened up almost every sector of finance and industry to private competition.

The steps have helped India attract five billion dollars in foreign investment so far and about 54 per cent of it came from the Asia-Pacific region. In 1993-94, APEC economies accounted for 45 per cent of India's exports and 30 per cent of imports.

Indian businessmen have established 148 joint ventures in the APEC nations.

HK tycoon completes take-over of company

SINGAPORE, Sept 9: Hong Kong tycoon Richard Li's Pacific Century Group (Holdings) Ltd has completed the takeover of local property concern Seapower Asian Investments Ltd, a company official said today, reports AFP.

A Pacific Century spokesman said the Hong Kong company had Thursday amassed a controlling 45.7 percent stake in the Singapore-listed company.

"There is a lot more work ahead in reshaping the company and the new management is committed to building it into a competitive group to take on challenges in the future," he said.

Pacific Century, with its initial 13 per cent stake in Seapower, had exercised an option in July to acquire a further 32.7 per cent in the company.

The acquisition raised the group's total interest in Seapower to 45.7 per cent or 70.1 million shares worth 101.77 million Singapore dollars (67.85 million US).

'Malaysia won't seek soft loans from Britain'

KUALA LUMPUR, Sept 9: Malaysia will not seek soft loans or other favours from Britain, a Cabinet minister said Friday in a sequel to a just-ended trade row between the two countries, reports AP.

Last year, British media reports alleged that Malaysia had promised to buy British arms in return for aid to build a dam.

These reports and other allegations of bribe-taking by Malaysian ministers led to a February 25 ban by Kuala Lumpur on giving new government contracts to British firms. The ban was lifted on Wednesday.

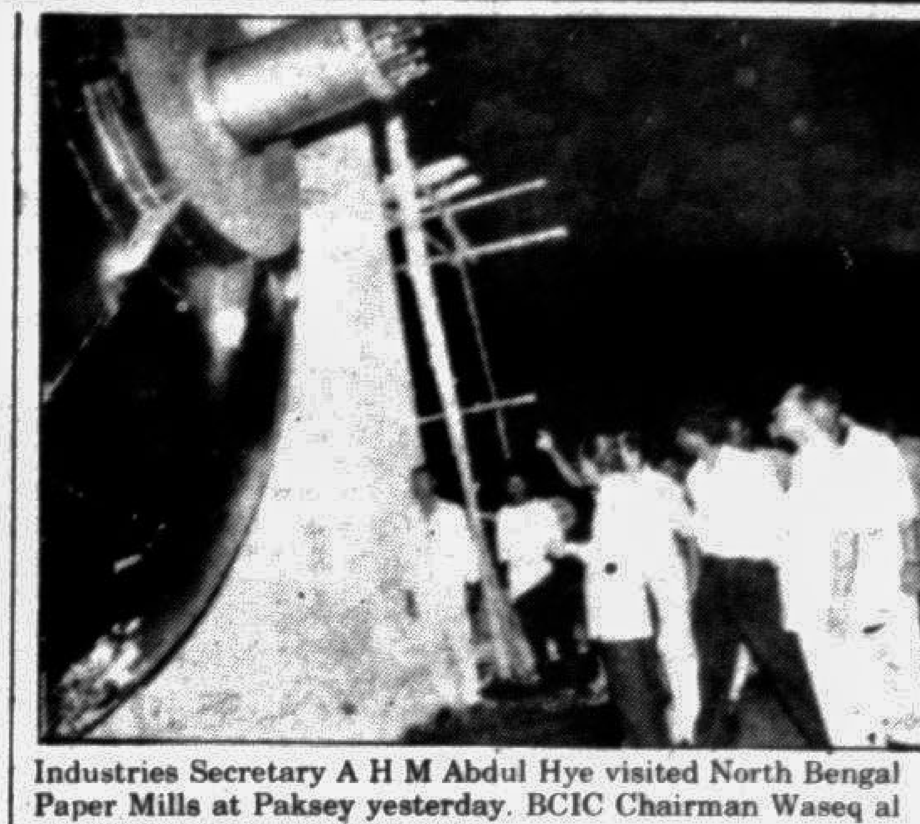
If Britain itself offers a soft loan, Malaysia will "study the matter carefully before making any decision," International Trade and Industry Minister Rafidah Aziz said.

"We do not want to be involved in Britain's internal problems," she told reporters.

She said British-Malaysia trade relations needed further improvement and Malaysia will ignore the British press.

On Thursday, Prime Minister Mahathir Mohamad said although the row with the Britain has ended, Malaysia still believed that the British media was biased.

"We do not care about the British media anymore. They are all a pack of lies," Mahathir said. "I find it is a waste of time. I find they cannot tell the truth," he said.



Industries Secretary A H M Abdul Hye visited North Bengal Paper Mills at Paksey yesterday. BCIC Chairman Waseq al Azad is also seen in the picture.

Chinese state bank gets $144m credit from Italy

BEIJING, Sept 9: A major Chinese state bank has signed an agreement for 144 million dollars of Italian export credit to support China's petrochemical industry, an official report said Friday, according to AP.

The credit is the largest Italian export financing ever for the People's Construction Bank of China, said the bank's Executive Vice President, Li Zaonong.

It will be used to purchase technology and equipment from Italy's TPL Technolgie Progetti Lavori Spa, the China Daily reported.

The export credit is to be supplied by five European bank with France's Societe General as the lead manager, the report said.

Asian stock markets close lower

HONG KONG, Sept 9: Asian stock markets closed mostly lower Friday, with share prices ending lower in Hong Kong on a wave of late profit-taking, reports AP.

The Hang Seng Index, the market's key indicator of blue chips, dipped 5.96 points, or 0.1 per cent, to 10,145.02. On Thursday, the index had shed 14.89 points.

Meanwhile, the US dollar closed at 99.55 yen, up 0.31 Japanese yen from Thursday's finish but 0.05 yen below New York's overnight finish.

Elsewhere in Asia:

WELLINGTON: New Zealand share prices ended mixed in moderate trading. The NZSE-40 capital index dropped 0.77 of a point to 2,158.71.

TAIPEI: Share prices rose for the third straight day as investors continued to gain confidence, led by state-run financial shares. The market's Weighted Index gained 58.62 points to 6,987.20 points.

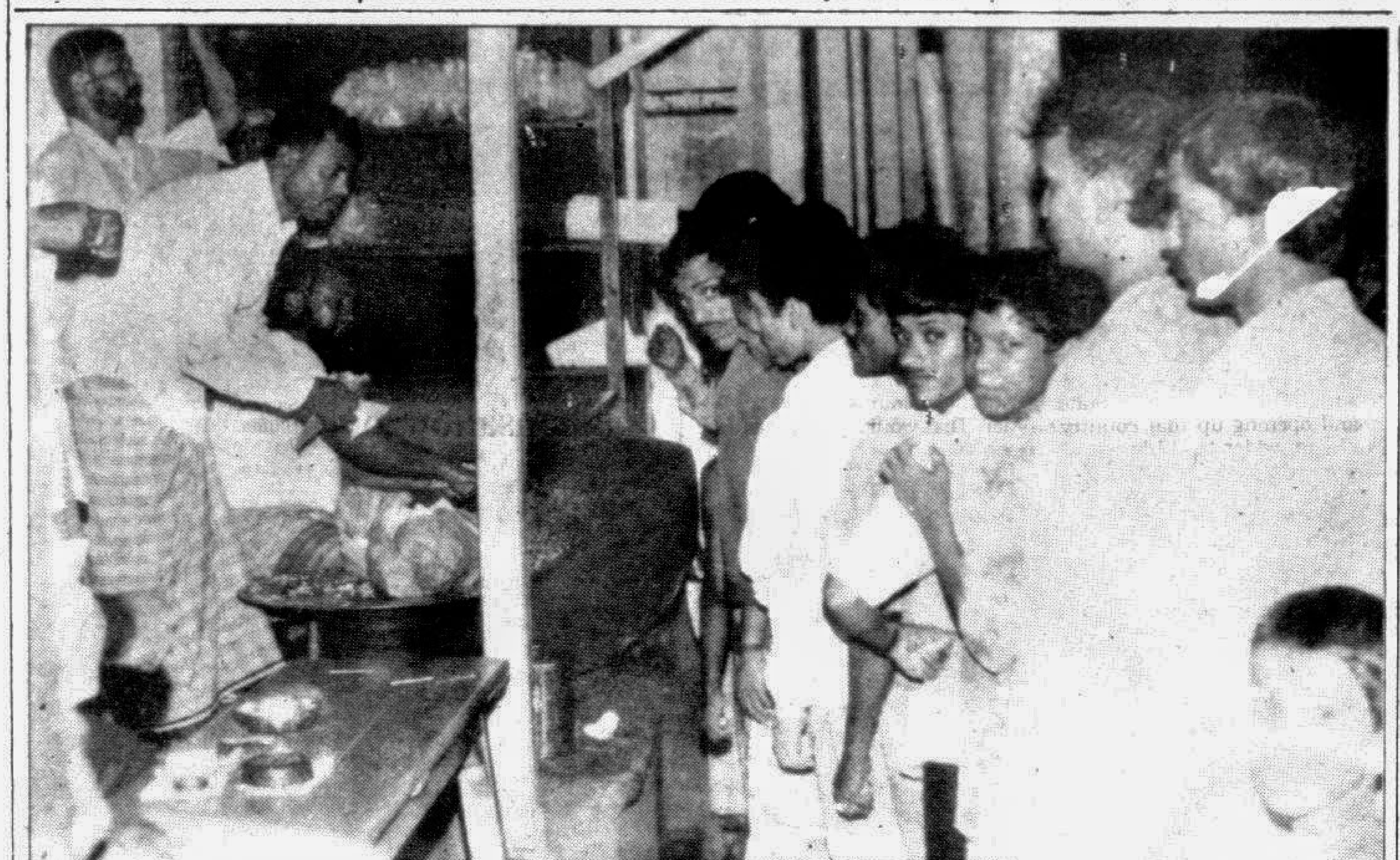
MANILA: Share prices fell in heavy volume. The Philippines' unified composite index of 31 selected issues gave up 7.05 points to 2,981.97.

SYDNEY: Australian share prices closed sharply lower, hit by a late selldown in share price index futures. The All Ordinaries index dropped 18.6 points to 2,070.6.

SEOUL: Share prices closed lower, due to widespread belief that the government does not want to see an additional advance of the market.The Korea Composite Stock Price Index tripped 6.64 points to 984.80.

SINGAPORE: Shares ended lower, lacking the impetus to gain more ground. The 30-shares Straits Times Industrials Index shed 4.27 points to 2,299.96.

KUALA LUMPUR: Malaysian share prices closed flat after lingering in the negative most of the day.



A long queue in front of a *biriani* shop popularly known as *Haji's biriani* at Kazi Alauddin Road in the city yesterday. Sold at Tk 40 per plate, this special type of *biriani* has also caught attention of customers in large numbers abroad.
— Star photo by A K M Mohsin.

Bid to tear down global trade barriers

Clinton admn trying to win approval of a modest proposal

WASHINGTON, Sept 9: The Clinton administration, rebuffed in an initial attempt to launch a wide-ranging effort to tear down global trade barriers, is trying to win approval of a more modest proposal, reports AP.

The original proposal, grandly dubbed Open Markets 2000, was rejected when President Clinton proposed it in July at the annual economic summit of the world's seven largest industrial countries in Naples, Italy.

The idea was to keep the momentum going for trade liberalisation by getting agreement to launch new negotiations to tear down barriers further in such key areas as telecommunications and financial services.

However, opponents, led by French President Francois Mitterrand, shot down the idea, claiming that new talks should not be considered the Uruguay Round agreement reached last December in Geneva after seven years of arudous negotiations is put into effect.

Mitterrand argued that raising the issue of new talks would put in jeopardy ratification of the Uruguay Round of trade liberalisation, which is still pending approval by the United States and other nations.

US trade Representative Mickey Kantor is scheduled in again raise the issue of post-Uruguay Round negotiations when he meets Saturday and Sunday in Los Angeles with his counterparts from Japan, the 12-nation European Community and Canada.

But in an effort to gain more support, the administration this time around is not putting forward any formal proposal but rather casting the talks as a mutual effort to find the best way to go forward in trade liberalisation.

"The approach is open to a wide ranging discussion," Kantor told reporters Wednesday. He said he planned to play a neutral role in Los Angeles and spend more time listening to ideas presented by the other countries.

"I think we will all agree that we ought to make sure that we continue to open markets and expand trade," he said. "How we do it, under what circumstances are open for discussion."

The initiative received a boost earlier this week when Japanese Trade Minister Ryutaro Hashimoto and Canadian Trade Minister Roy MacLaren both spoke favorably about the US approach.

MacLaren told reporters in Ottawa that he hoped the Los Angeles meeting would discuss a "range of post Uruguay Round initiatives aimed at maintaining the momentum of trade liberalisation."

However, EU officials, spurred by France, have continued to express reservations about launching a new round of trade talks so soon after the Uruguay Round effort.

Policy framework for sustained growth and poverty alleviation in Bangladesh

by Sadiq Ahmed

Bangladesh is going through a major transition phase. The international environment has changed dramatically in the 1990s. While new opportunities for growth have emerged through expanded access to international trade, technology and finance, the competitive pressures have also intensified. The rapid economic progress of the high-performing East Asian economies suggests that their poorer South Asian cousins need not stay poor for ever. There are important lessons of the East Asian experience for policy makers in Bangladesh. The objective of this article is to articulate my own views on what are the key challenges faced by Bangladesh in the coming years and their policy implications.

I. Key Development Objectives and Strategy

There is hardly any debate that the key development objective for Bangladesh is to substantially reduce, and eventually eradicate, poverty. Despite progress in the past, Bangladesh remains a very poor country. The absolute number of poor in Bangladesh has grown steadily every year since independence in 1971. Currently, an estimated 50 per cent of its population has income below the poverty threshold.

The main reason why poverty has remained so large is the rather dismal economic growth performance over the past two decades — only 4 per cent per annum which translates into only 1.4 per cent in per capita terms. This compares very unfavorably with per capita GDP growth rates of 8 per cent in Korea, 5.5 per cent in Thailand, 4.4 per cent in Indonesia and 4 per cent in Malaysia. The performance is weak even in comparison with its South Asian neighbours — 3 per cent in Pakistan, 2.9 per cent in Sri Lanka and 21.1 per cent in India. The adverse impact of this low per capita growth on poverty was magnified by a worsening of the income distribution — the gini coefficient nationwide worsened from 0.36 in 1973/74 to 0.38 in 1988/89. So, the chief instrument for poverty reduction ought to be an acceleration of a broad-based or shared economic growth.

The pattern of growth needs to be pro-poor in the sense that it should provide productive employment opportunities to Bangladesh's burgeoning labour force — estimated at 57 million and growing at 3 per cent per annum. Productive employment is the most sustainable means of providing income for the poor. It is also efficient, given Bangladesh's abundant labour supply.

Generating high-income employment would in turn require substantial investment in productive activities and greater labour productivity. Much of this investment will need to come from the private sector which can compete effectively in the international markets. This is one of the key lessons of the experience of the high-performing East Asian economies. The public sector investment will need to play a supportive role by providing necessary infrastructure and human development.

At 13 per cent of GDP, the level of investment in Bangladesh is low by international standards. The high-performing East Asian economies generated investment effort much in excess of even 20 per cent of GDP. Even in South Asian economies, the investment effort has ranged from a relatively low of 18 per cent of GDP in Pakistan to 22 per cent in India and Sri Lanka.

A private investment rate of 6-7 per cent of GDP as currently in Bangladesh is hardly conducive to rapid growth and employment. The private sector investment effort is 12 per cent of GDP in Pakistan and 16 per cent in Sri Lanka. This is much higher in the high performing East Asian economies. Despite a very conducive macroeconomic environment in Bangladesh in recent years — low inflation, low fiscal and balance of payments deficits, and high reserve buildup — the overall investment climate remains weak. Concerted efforts will be needed to improve this environment through a more aggressive liberalization of the external trade, domestic deregulation and privatization policies.

The public investment effort also needs to be boosted from the current low levels of 6 per cent of GDP to around 9-10 per cent per annum. Much of this investment needs to be concentrated in complementary activities for private sector development (e.g infrastructure) and in human development. Infrastructure bottlenecks — inefficient and inadequate power supply, telecoms and transport services — are a serious constraint on private investment in Bangladesh. Regarding human development, Bangladesh has made some good progress as evidenced by improvements in its social indicators and the reduction of the population growth rate. Even so, there is still a long way to go. In particular, skills required for rapid growth needs urgent attention. An effective strategy to address these constraints will require accelerated public investment in these areas as well as an expanded role for private sector in the supply of skills.

Low investment effort is partly related to low national saving effort. While national saving rate has increased steadily in recent years reaching around 11 per cent of GDP, the national saving effort is still among the lowest in the South Asia region and low by international standards. Improved business environment and an acceleration of economic growth will be necessary to provide impetus to saving.

II. Implications for Policies

A. Macroeconomic Policies

As noted, the current macroeconomic environment in Bangladesh is generally conducive to rapid growth and private sector development. The main problem is that while past policies for economic adjustment have succeeded in stabilizing the economy, these have not been accompanied by adequate structural reforms and public investment support to boost private investment and growth. As a result, the economy is suffering from depression — lack of aggregate demand.

Continued prudent macroeconomic management, however, will remain essential. Budgetary and monetary discipline will remain necessary. A flexible management of exchange rate will continue to be important to preserve incentives for exports. However, steps will need to be taken to reduce the present high real interest rates (10-12 per cent) which has been a major deterrent to private investment. The main policy instrument here is financial sector policies (see below). At the same time, the structure of taxes needs to be further improved to reduce inefficiency and improve the equity of the tax system. In particular, greater reliance on profit, income and wealth taxes will be important.

B. Trade and Taxation Policies

An aggressive trade liberalization policy is the key to promote efficiency, reduce anti-export bias and boost private investment. International evidence on the positive role of trade liberalization for efficiency and growth is unambiguous. Trade liberalization is also critical to ensure that privatization strategy will result in efficient resource allocation. While Bangladesh has taken some important steps in liberalizing trade in the past, the implementation has been hesitant and uneven. As a result, the economy remains quite heavily protected in many areas of economic activity.

What is needed is boldness and a clear signal to the private sector that trade protection is a feature of the past and external competitiveness is the way for the future. This would require a rapid elimination of most non-tariff barriers on imports (except those for health or security reasons), streamlining of tariff rates around a fairly uniform band of 10-30 per cent over the medium term and then further reduction to the 10-15 per cent range over the longer term.

Needless to say, successful trade reforms will require simultaneous measures to improve the tax structure for public revenue mobilization. With the introduction of the VAT, Bangladesh took a major positive step to modernize and improve the efficiency of its tax structure. Further steps are needed to improve the efficiency and equity of the tax structure by reducing reliance on such indirect taxes as trade and excise and expanding the coverage of income, profit and wealth taxes.

Along with trade reforms, an important institutional reform that is needed is to streamline import clearance procedures. Substantial delays in clearance and related corruption are well known features of the customs institution. Many other countries have addressed this familiar problem by privatizing clearance procedure through assigning of preshipment inspection services to reputed international agencies. This has reduced clearance delays and also increased revenues. Bangladesh needs to move in this direction as well.

C. Investment Deregulation

Ironically, despite the rhetoric one often hears, Bangladesh remains a heavily-regulated economy, leading to high cost and low incentive environment for the private sector. The need to streamline import clearance procedures was noted above. This is one important example of bureaucratic control and high cost business environment. There are other examples as well.

Despite steps to reduce foreign exchange controls, there are still many restrictions on foreign exchange transactions. These include restrictions on use of suppliers credit, retention of export proceeds, remittance of foreign national's earnings and imports by domestic firms. While some degree of monitoring and prudent regulation on capital flows may be needed, excessive regulations and licensing/prior approval system creates an environment of bureaucratic hurdles and disincentives. The smaller the number of these regulations, the less the scope for rent seeking by the bureaucracy. Deregulation and debureaucratization ought to be the key theme for private sector development.

Deregulation, competition and macroeconomic stability should provide the main policy framework for incentives for the private sector. The use of generous and discretionary tax incentives to attract private investment, as at present, should be eliminated. There is plenty of international evidence on the doubtful value of fiscal incentives for mobilizing private investment. They are of even lower value in a regulated uncompetitive economy.

D. Legal Framework for Private Enterprise

While deregulation is key to private sector development, a proper legal framework is essential to protect property rights, enforce contractual obligations, avoid monopolistic, and preserve consumer and worker rights. Although Bangladesh has taken steps to strengthen the legal framework concerning commercial banks, capital markets and non bank financial institutions, implementation is weak due to lack of proper institutional arrangements.

A major problem concerns transactions linked with land transfers and mortgages. These emerge from the poor land titling system and related abuse by both the private sector and the bureaucracy. A substantial overhaul of the land titling system and severe sanctions against abuse are needed.

The 1913 Company Law needs to be updated and modernized to serve the needs of a modern corporate sector. At the same time, a modern bankruptcy legislation will be necessary to facilitate entry/exit process.

A major difficulty in Bangladesh is the lack of adequate legal sanctions and enforcement mechanism for the protection of consumer rights. This is one reason for a distrust of the private sector in some quarters. While one need not go overboard with complicated legal sanctions for non-compliance of obligations, efforts are needed to ensure some minimum legal recourse and their speedy implementation to preserve consumer rights.

To be continued

(The author is a Lead Economist in the South Asia Region of the World Bank. He is also the President of the AEDSB, a voluntary non-profit association of North America based development practitioners concerned with promoting development in Bangladesh. The views expressed in this article are those of the author alone and should not be ascribed to the World Bank.)