

Status of Chittagong

All Chittagong was agog for the Prime Minister just to say it. Their anticipation had been mightily whipped by the six points placed before the people of the port city by mayor Mohiuddin Choudhury at a place and a moment that could not be more propitious. And it remained for Begum Khaleida Zia, the Prime Minister, to respond as best as she could.

Whether she obliged or not is largely immaterial if considered in the light of what it—calling Chittagong the commercial capital—would mean in brass-tack terms to the transformation of that capital of deprivation and injustice into what it deserved to become way back in 1947. The forces and factors responsible for Chittagong's being in a limbo for about half a century—while Dhaka was transformed from a sleepy district town to a megalopolis, in fact into one of the ten most populous cities in the world—would not relent, not to speak of resigning and retiring, after commitments for its uplift. The resolve has to be translated into deeds.

The forces of autocratic centralism have played havoc specially in the last two decades and while there has been significant political changes in the land there still is no chance of a meaningful devolution of power making a dent on the mental make-up of the leadership in power. The centripetal forces of concentrating all political and economic power into the capital succeeded in denying Chittagong its natural growth into one of the nation's great centres of national surge into a prosperous welfare state. And leaderships in Chittagong, to complement, always failed even to know and formulate what it was that the place needed as a matter of right and was denied. Now the Prime Minister's assurances that Chittagong will receive priority attention for its rapid development will be of little avail sans matching decisions to transfer sizeable executive and even policy-making power-sources, relating specially to the nation's finance and commerce, that old game might continue as before.

This is the same suicidal way that never allowed Khulna, Rajshahi, Bogra and Sylhet to come into their own. The second port Mongla was abandoned to rot spelling a clear no to the industrial-commercial development of the whole of Khulna and Rajshahi divisions. Whatever this government or the next cries hoarse about—GNP, GDP or per capita figures—the imbalance in growth as witnessed in the last 47 years would go on decimating, indeed petrifying the nation outside of Dhaka. Let Chittagong know what it must demand and build beyond that hollow decoration of being called some kind of a capital. If they can strike it where it should be hit, a people would rush to Ctg for specialised treatment for certain diseases, say cancer, b. students would rush to it for specialised scientific and technological education, c. specialists in the many visual and musical and theatrical arts would mob the city for patronage that must be forthcoming from the millions coming into money as a result of the city truly becoming a capital of the country—the financial capital.

All this wouldn't come from demanding alone. No one can gift greatness to a city or to a region or to a people. Chittagong has done next to nothing to build that greatness for itself, wallowing in the cozy comforts of a little town ticking on somehow by clearing-forwarding and stevedoring. To save the nation this must end and let the leadership in this come from Chittagong itself.

Haitian Realities

Events are fast moving in Haiti. Most of them are reportedly for the better. Of the competing developments, the more important are the lifting of the United States sanctions against that poorest nation in the hemisphere and the taking over the parliament building and the city hall in Port-au-Prince by the US troops. While the first is definitely going to lessen the sufferings of the common Haitians after a long trade blockade, the second actually sets the stage for the return of Haiti's elected lawmakers and the mayor of the Port-au-Prince.

As part of the deal, this move is aimed at passing a law guaranteeing amnesty to the military leaders by convening parliament as early as possible. So far the Carter-brokered peace formula has worked well. There is not yet any sign of the US adventure in Haiti going the Somalia way except for 10 Haitians killed in a clash with US marines. Thus belying most of the earlier predictions, Clinton's foreign policy there is looking to be successful, thanks to the military threat and aggressive diplomacy that combined well together to make Raoul Cedras and his supporters yield under pressure.

Sure enough, at stake was the credibility of the US president as a statesman. Both Republicans and his party senators vehemently opposed the planned outright invasion that mercifully has been avoided. The president went it alone and risked his sagging reputation further. Now that the job looks like being performed rather well, his opponents are going to be quiet till such time as thin-gs move smoothly. Anyhow, he has salvaged some of his lost popularity with the American public.

That is however from the American point of view. The real concern ought to be the gains that might come for the Haitians by way of the peace deal. Exiled President Jean-Bertrand Aristide will return home and take over a ruined economy. The widespread poverty in Haiti has been further accentuated by the UN-backed embargo that has just been lifted. The US troops along with a multinational force can enforce order for a time but will never be able to bring about a permanent solution to the poor Caribbean nation's economic ills.

An idea of the prevailing crisis can be had from the news that 11 tons of food from the UN Development Programme's warehouse in Port-au-Prince was looted. Well, emergency food aid and other contingency measures can meet the problem now. The international community and even the US alone is capable of pouring in enough resources there to avert any social chaos and conflicts. But that is hardly enough. The more important task is to restore a democratic order as well as to set in motion enough economic activities to support that order. If a durable system of both so, it is not put in place, the Haitian society may once again relapse into the mire of the past. Let us hope all involved in the reconstruction of democracy in Haiti are aware of this and taking appropriate measures to get over the crisis.

Financial Sector Reform Programme: The Issues of Interest Rates

by Dr A M A Rahim

I was invited to a dialogue on policy reforms in the financial sector very recently. The dialogue was attended by Members of Parliament, Governor of Bangladesh Bank, a former Planning Minister and senior staff of the World Bank and the IMF. The purpose of this write-up is to focus my point of view which I found to be a bit different than those of others.

The first and foremost objective of Financial Sector Reform Programme (FSRP) was liberalisation of the interest rate structures to be determined by market forces. The goal was to deregulate deposit and lending interest rates to be determined in competitive process by demand and supply forces. The other allied goals were to (a) take the costs of subsidised interest rates transparent and reimburse cost to bank; (b) protect banks on large loans to poorly performing corporations at Govt request; (c) replace direct credit ceilings with indirect monetary instruments and open market operations.

Another major objective was strengthening the Bangladesh Bank's (BB) supervision capacity.

An allied objective was to strengthen NCBs by recapitalising the NCBs, strengthening NCB management and accounting system, improving NCB debt recovery. Among the miscellaneous objectives were the strengthening of the legal framework for debt recovery, revising regulations affecting banks and strengthening the capital markets.

The Financial Sector

Reform Programme has been going on since 1990; now it is time proper to evaluate its impact. Let us start with the first objective with deregulating interest rate structure and releasing it to the operation of market forces. It has been observed that the interest rate structure has been determined not by competitive process but by counsel of the Ministry of Finance. There has been frequent reports in the newspapers of Finance Minister's meeting with the Managing Directors of NCBs and PCBs and advising them for downward adjustment of the interest rate structure. The advice of Finance Minister is *ipso facto* an order on the NCBs and it was complied with accordingly.

Central Idea

The central idea of the FSRP was determination of the interest rate by supply and demand forces to be managed by Bangladesh Bank through the implementation of open market operation. In spite of implementation of FSRP for three years, till to date enough securities or Govt bonds are not available through which the central bank can carry on the open market operations. There are few other instruments which the BB can deploy in bringing about equilibrium in demand and supply of credit. As has been noted, the role of BB in this regard has not been very visible; basically it was the Finance Minister who took initiative in determining the interest rate structure.

Modern interest rate theory is no longer viewed in isolation.

It is now recognised that capital theory is a generalisation of price theory into the domain of time. Investment is a sacrifice of current consumption for consumption at a later date and interest rate is an element in the price ratio—the rate of exchange of present goods for future goods. Capital is the present embodiment of future consumption goods. Interest rate is the most crucial element in the conceptual framework of inter-temporal decision making. The literature on interest rate is unanimous on the following: (a) Interest rate reflects the marginal rate of substitution between present and future consumption; (b) It reflects marginal rate of substitution between present and future production. It reflects the marginal proportionate yield of productive extension in time; (c) It reflects the marginal rate of return on current sacrifices or the marginal rate of return to savings and investment and finally, (d) It reflects the marginal productivity of capital. It reflects the marginal yield on capital value.

In the light of the above, interest rates have an effect not only on monetary and credit policy but also on other economic variables and components of economic policy relating to public and private investment, foreign trade, capital inflow/outflow and balance of payments, influencing very widely the allocative and investment process. The problem of appropriate interest rate policy for a country would depend largely on its policy

objective and the institutional framework.

Mobilising Savings

Since interest rate is the price of current sacrifice or savings, whenever the interest rate is kept below the equilibrium level there is an excess of demand and an insufficient supply of funds. Manipulation of the interest rate can, therefore, be a powerful weapon in mobilising savings. However, since the Keynesian revolution the role of interest rate policy lost much of its attractiveness. Keynesians laid emphasis on income influencing savings (the absolute income hypothesis) while regarding interest rate only as an important determinant of the level of investment. Classicists and their admirers give wide prominence to the role of interest on increasing national savings. Empirically, it is clear that the influence of income on savings is greater than that of interest rates. The econometric evidence indicates that the interest sensitivity of personal high interest rate policy has been successful in Korea and Taiwan.

There are certain theoretical grounds and also a few empirical case studies which create a presumption that in an under-developed country the effect of interest rates on savings may be more in line with expectation of the classical economists rather than that of Keynesian economists. In the developed countries, the marginal efficiency of capital remains more or less close to

the market rate of interest. Naturally a big jump in the cost of credit would take this cost above the marginal efficiency of capital in the economy thus reducing investment, hence savings. But, in an under-developed economy, marginal efficiency of capital is likely to be way above the prevalent interest rates. Therefore, even a big increase in interest rate will keep the cost of credit below the contribution of capital to output at the margin. In other words, cost of capital is not a relevant consideration inhibiting investment decisions in such an economy. It is rather the scarcity of domestic capital, complementary foreign exchange components and other socio-economic factors, which hinder growth of investment. Therefore, these countries present a favourable environment for the use of interest rate as mobiliser of savings.

Idle Money

In the dialogue some participants argued that since the inflation rate in Bangladesh is very low, the present interest rate structure should be revised downwards further. It is very relevant here to mention that only about 20 per cent of the total credit needs of the country is met by the formal sector. The remaining 80 per cent of credit needs is provided by the informal market where the rate of interest is 4 or 5 per cent per month i.e., varies between 48 per cent and 60 per cent. This has been empirically verified by studies in the BIDS. Another argument given is that about Tk 2000 crore of idle money is lying in the banks, therefore there is a

disequilibrium or excess of supply of credit. Therefore, the interest rates should come down to clear the market. The factual position is that the foreign banks have very little idle money. The private banks have little money but the NCBs have huge idle funds. If account is taken of the loan applications pending in the banks, the total amount shall far exceed Tk 2000 crore. The problem here basically is one of organisational management and not of excess supply. This is confirmed by the fact of superior management of the foreign banks and their holding of little or no excess fund. The solution is upgrading management of the NCBs in order to expedite processing of loans and removing transaction cost as far as possible.

As noted earlier interest rate is also determined by marginal time preference and in Bangladesh the national savings rate is only 4 per cent and roughly 50 per cent of the people live below the poverty line. One can, therefore, safely conclude that marginal time preference is very high, consumption today is much more preferred than consumption tomorrow.

It is my view that there should be no floor or ceiling on interest rates; like all other prices, interest rate which is the price for liquidity, should be determined by demand and supply forces. As a matter of fact this has been a major goal of FSRP.

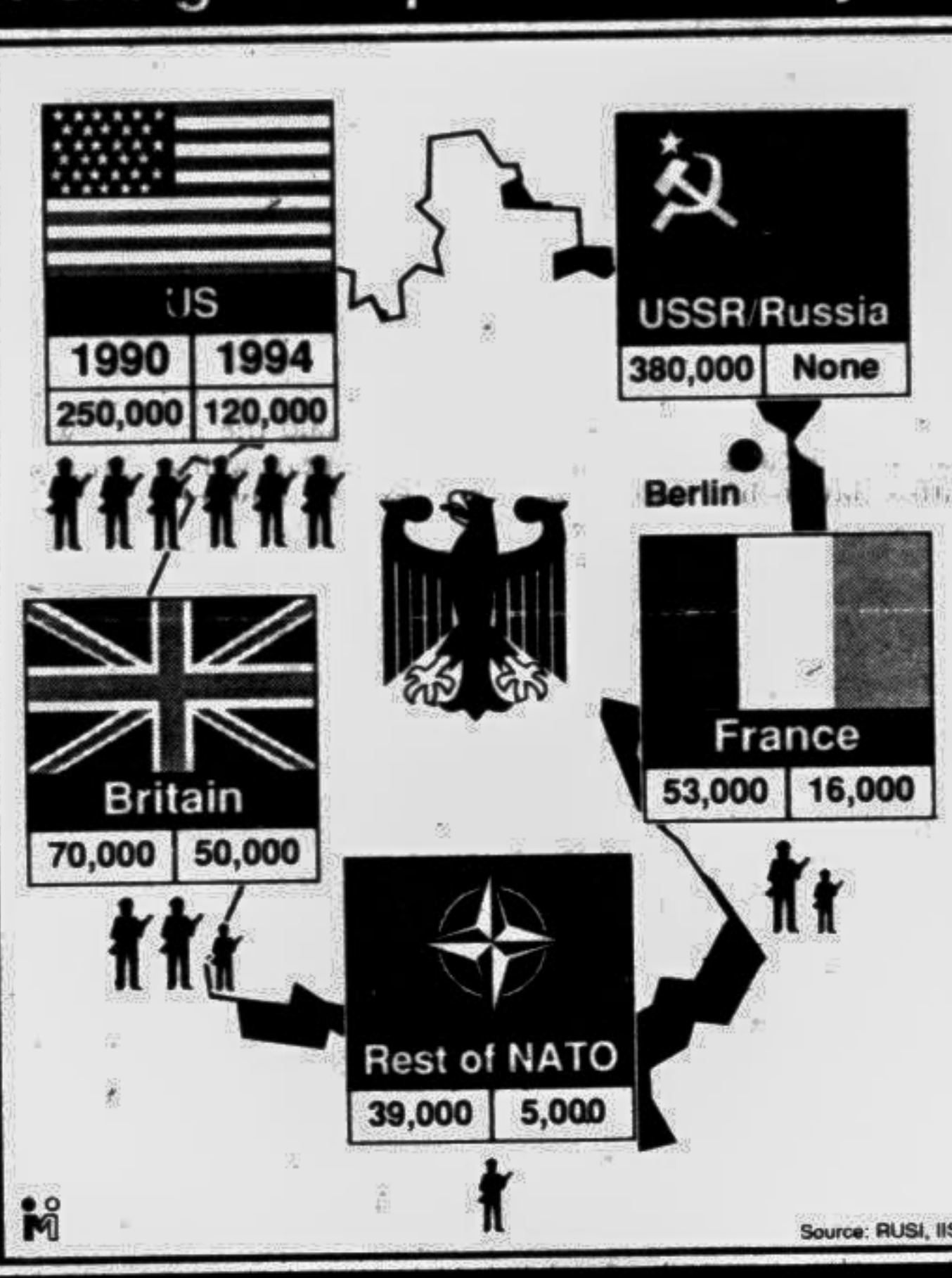
The author is a former Secretary to the Government and a Senior Fellow of Bangladesh Centre for Advanced Studies.

From Cold War Frontline to 'Peace of the World'

Petar Hadji-Ristic writes from Berlin

It is the end of an era. Russian and Western troops have left Berlin, the frontline of the former Cold War. For Germany, this marks the return of full sovereignty and a new emphasis on its own foreign policy.

Foreign troops in Germany



concern, the defence of Western Europe. It said the troops could now do so as long as they were United Nations peacekeepers with the specific approval of Parliament.

That historic ruling echoed the 1991 treaty between the four powers—the United States, the Soviet Union, Britain and France—which ended the occupation of Berlin and permitted the reunification of the city. The treaty stated that Germany would now be sovereign partner "to serve the peace of the world".

But this did not mean Germany would be the world's

policeman, wrote *Die Zeit*. "Not every power had to do everything."

Just how much a role Germany will play on the world stage will be determined by internal politics. The trauma of the consequences of World War II lives on and the country is haunted by the fear of loss of life in fighting abroad.

The economic superpower of Europe wants a permanent seat on the UN Security Council. If German troops are to serve as peacekeepers, the country wants more influence over UN decisions.

There is little doubt that Germans want to play a bigger role globally. The tragedy of Rwanda touched the nation. Almost 7,000 specialists, 2,000 or then doctors, offered themselves for a relief programme in Zaire.

There are hundreds of initiatives to help East European countries with German management skills and money. And a German administrator, Hans Koschnick, the former mayor of Bremen, is heading the European Union's efforts to reconstruct the Bosnian city of Mostar.

But while Germany is anxiously playing a new role abroad, it is still facing the problems of reunification. Some see it as the biggest problem for the country in the years ahead.

The big upswing in the east's economy is still awaited. Although 342 million marks were invested there between 1991 and 1993, unemployment is still more than one million. The cost to the government has been enormous. This year, 175 million marks will flow into the five eastern states.

The problems are more than just economic integration. Many eastern Germans complain of insensitive treatment by their western cousins. The discontent is reflected in the growing popularity among the 16 million Ossies (easterners) of the PDS party, the successor to the former communist party.

A survey by the *Institut für Demoskopie* in Allensbach showed that many are dissatisfied with the solidarity between east and west and 58 per cent hope that this will change. Even left-wing journalists come in for criticism that they treat the eastern part of the country as foreign.

Some of those peering through the railing of Treptow Park on the day Yeltsin sur-

veyed his last troops in Berlin—almost 50 years after they celebrated their victory for the good "of all mankind"—were curious young people who had seized the new opportunities by fleeing the far reaches of the former Soviet Empire to settle in Germany.

Their presence underlines that Germany's spectacular success has made it a magnet for millions. In 1991, immi-

grants pushed the country's population over the 80 million mark. And the flow has continued.

The pressure to stem in will grow and be one of the dominating internal issues. They will want a wall around Europe to reduce the number of foreigners arriving," says Hardten.

It may be one of the ironies of Germany's future that as it increasingly plays a humanitarian role abroad, conservatism might grow stronger at home.

— GEMINI NEWS

PETAR HADJI-RISTIC is a Berlin-based documentary film producer.

OPINION

"The Gulf War: Which Way the Wind Blows?"

A M M Shahabuddin deserves utmost thanks for his thought-provoking write-up on the sad and lingering effects of the Gulf War on war-ravaged Iraq (*The Daily Star* 31.8.94). He echoed the feelings of neutral observers when he commented that "aggression of a member state of the UN is a crime against humanity which can't go unpunished". It would be worthwhile to recall that shortly after the Iraqi invasion of Kuwait, her oil minister visited Dhaka and addressed a press conference at the National Press Club in course of which he disclosed many untold stories of Iraqi barbarism and narrated how the reconciliatory talks, held in Saudi Arabia between the officials of Kuwait and Iraq under the initiative and good offices of the Saudi Monarch, ended in utter failure because of the intransigence and rash attitude of the Iraqi officials. The Iraqi officials left the negotiation table in an unmannerly and discourteous fashion asking the Kuwaiti officials to go to Baghdad if they have anything more to say.

Egoistic as they are, even today, the Iraqi warlords failed to read the writings on the wall. Was it not Saddam Hussain who kept former UN Secretary General Peres de Cuellar waiting for six hours in the visiting room before he was allowed to see the Iraqi dictator? May be Iraq had been bombed back to pre-industrial stage, may be the horror stories about the Kuwaiti babies being yanked from their incubators by beastly Iraqi invaders were blatantly phony, still a fact is a fact, as Mr Shahabuddin has aptly observed, and this is, perhaps, the real reason as to why the world conscience has not yet pardoned Saddam Hussain and his aggressive armed forces for repeatedly committing crimes against neighbours.

The findings of an American unofficial international tribunal notwithstanding, the fact remains that following a copy book scorched earth policy the Iraqi soldiers burnt innumerable oil fields in Kuwait severely polluting the environment for months together. The fact remains that the Iraqi invaders laid thousands of dangerous mines all over Kuwait which are yet to be cleared fully. The Iraqi invaders were perhaps inspired by Shakespeare's immortal satire that "beauty provoketh thieves sooner than gold" and commit-

ted all sorts of crimes against women, but at the same time did not forget, like the experienced bandits, to take away the huge gold reserves from the Kuwaiti treasuries. Besides, the bandits also posed as lover of paintings and plundered all the world famous paintings from the galleries and houses of the nobilities. No doubt, the world opinion has slightly tilted against the economic sanction in view of the untold sufferings of the masses, but this does not certainly mean that the world has softened its attitude towards Saddam Hussain and his cruel soldiers.

Saddam Hussain's so-called security and peace offer apparently to his Arab neighbours cannot be accepted without some amount of doubt because of his past treacheries with the friendly neighbours. The 'ray of hope', if any, for Iraq lies not in the Russian or French discovery of 'improvement in Iraq's behaviour', or in the signing of '540 trade agreements', but in the likely 'rethinking' about it among its Gulf neighbours with a view to minimising the miseries of the civilian population of Iraq who are the worst victims of Saddamisation and the consequent UN sanctions.

Incidentally, one can take a cue from King Fahd's address to the pilgrims to the Holy House of Allah in May this year, in course of which he observed that "the Kingdom of Saudi Arabia is saddened that most Muslim countries are crisis-ridden at present" and that "Muslims are now in need, more than ever before, to hold fast to their benevolent Islamic faith in order to foster mutual confidence with other countries and peoples" and that "the eternal Islamic creed does not favour isolation. It neither encourages sowing the seeds of rancour and hate between countries and peoples, nor does it impose a ban on dealing with others just because they happen to be different from us with regard to their orientation and thoughts." Iraq's biggest neighbour Saudi Arabia's position vis-a-vis world opinion is significant. Saudi Monarch's observations are laudable and full of gesture to fellow brethren. If his words are of any guide to future course of action, they will appear to any discerning eye as 'broad hints' as to which way the wind blows.

Abdul Kader Basha, Dhaka

To the Editor...

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

Who owns the south Gulshan park?

Sir, Parks are built for recreation. Every residential area should have parks or open grounds which give freshness to the mind. It is also important for our children. But people living in the southern part of Gulshan have to sit at home folding their legs, as the only park located on the southern far end of Gulshan, opposite to National Shooting Complex, is in a pitiable condition.

The park is occupied by some unauthorised occupants with slum, shop and even a mosque. A jam-e-mosque is already situated with all facilities for musallis and pious people. The slum-dwellers have cleared the big trees for fire woods and for making their furniture most illegally without considering the consequences

to the environment. The unauthorised shops and *kutchas* houses have been using DESA's power directly taking lines from live wires using fish hooks which is not only dangerous and risky for life but also amounts to a criminal act under law. Do we have to believe that DESA is ignorant of this abuse of power? The entire park with gridded brick boundary wall is under the control of some unscrupulous persons who are engaged in collecting rents, allotting plots after payments and to cheat in a planned way has a "maintenance committee" for the "services". These houses are increasing so fast that very soon the area will be given a name and eventually regularised by DCC and other relevant authorities which would be a violation of the contract for lease with the present genuine allottees of the area. But

this is not the end of present condition of the park and its adjoining areas.

Apart from misusing electricity, water connection, the park area is very unhygienic without sanitation, drainage and recently some young people taking advantage of the situation, have now engaged themselves in selling banned drugs, introducing prostitution and gambling. We, the taxpayers, selected the area for constructing houses when we were shown the park and its open surrounding spaces for conducive environment. The area is now cheaper (for rents) and people (particularly foreigners) avoid living in this part of Gulshan for the ever growing slums.

We want to know, who owns the park? We fail to understand for whom the park is meant for and to whom it belongs now. There is no care, control and supervision of the once beautiful park. Will the authority do something to ensure proper maintenance of such an ideally located park or the result, as it has been in the past, will be a "Frustrating Zero"? In view of the above situation we, the dwellers of south Gulshan, who do not

have any park or open ground nearby, request the relevant authority to take immediate measures to let the park be a park and not a place for unauthorised people now occupying it illegally.

Masud ur Rahman Gulshan, Dhaka

Plague in Indian city

Sir, It seems the people of whole of India are in the grip of fear of deadly plague epidemic which swept over one third of the population of Europe in the 14th century. Thousands of frightened people wearing face masks or covering their noses with pieces of cloth are fleeing the plague affected western city of Surat in Gujarat near Bombay.

We know and hope our Health, Immigration and Customs officials would remain alert and our Ministry of Health would take all necessary precautionary measures to check spread of the epidemic in our country any way. However, anti-flea medicine and Tetracycline capsules may easily be made available in our cities and district towns. Prevention is better than cure.

O H Kabir Dhaka-1203