

## Unjustified Delay

Today is the 30th day since 147 members of Parliament tendered their resignation to the Speaker. It was on 28th December that Shaikh Razzak Ali received three files containing resignation letters, which he said he would scrutinise before announcing their acceptance or otherwise. Since then a lot has been written and debated as to the discretionary power of the Speaker, and how much of the resignation process is automatic. Today we would like to clearly state that the Speaker has taken much too much time in coming out with his decision, so much so that his credibility is now beginning to be questioned. A few days is all that he needed for whatever purpose he might have had in mind. But allowing four weeks to pass he has quite unnecessarily allowed speculation to arise as to his intentions, and how much of this delay he is actually doing on his own, and how much of it is in collusion with the ruling party. Of the 30 days delay, he is responsible for 20 days, and 10 days were because of court order. We are essentially talking about his portion of the delay.

This paper has generally been sympathetic to the Speaker's role, and we supported his initial delays in making the announcement. We did so in the greater interest of the country. One day after the en masse resignation, Prime Minister announced the acceptance of what was the most difficult of the opposition's demands. Within a short while after that, Sheikh Hasina declared that all would have been resolved if that announcement came 24 hours earlier. Along with the rest of the country, we also felt that since all hurdles had been crossed, the Speaker's tactics of giving time to both sides to formalise what had been agreed through public statements, was a good thing. But when the Speaker allowed too much time to pass. When he saw that nothing much was happening, and that time was being wasted by both sides, he should have put a time bar — say a week — on the negotiations, and then gone ahead with his announcement. But having waited a whole month, the Speaker will now have a very hard time justifying his long delay. In fact we feel that there is no justification, and that it was a mistake, a serious mistake, on his part to allow so much time to lapse. If the resigning members are guilty of having trivialised with the fate of the Parliament, the Speaker can be said to be guilty of trivialising with the rules of procedure, and giving rise to credibility questions about himself and his office. He is also being blamed for causing a judicial ruling to come about. The argument is that if he did not delay, then there would not have been any recourse to the judiciary, and hence no ruling.

Today, also the 10 days restraining order of the High Court expires. Without wasting a further moment, the Speaker should announce his decision.

## Death Machine

The Daily Star put the toll as 16 dead. Others went up to even 21. All of yesterday's morning press said in unison the death figure was sure to go up. At least 15 were missing from among the passengers of the Nargharbari-bound Bogra bus and all of them could have died in Thursday's accident near the Karamja Bridge in Sathia thana of Pabna. On top of these 36 people either killed or missing, 47 persons were injured and admitted to hospital that makes a tally of 112. A 50-seater vehicle carrying about a hundred is a veritable death trap and death lurks each time such buses take to road. It is strange that with thousands of buses plying every day of the year more buses than at present do not collide or take the plunge. Well, the mystery will not be any more as more and more buses would kill ever more people every day of the year.

The wherewithal for effectively stopping the crowded and smoking buses doesn't warrant any crore Taka worth new expenditure. It can be put into practice tomorrow. Identifying the criminal buses and trucks can be efficiently done, with necessary evidence, even by voluntary social organisations — if only they are requested to do so. All that will be left to stop crowding and smoking is to prosecute and punish the operators responsible.

Why isn't such a simple course followed? Evidently for lack of genuine will. Why doesn't one or a dozen NGOs take up the job with government agreeing to do the legal follow-up? Yes, this is this easy. And yet must dozens perish every day on the roads? The mindlessness of it all!

## Cultural Movement?

The 14th National Tagore Song Conference opened yesterday with more than 300 artists and organisers converging on Dhaka for three days of music, competition, discussion and lively cultural exchange. The nomenclature is perhaps a little deceptive and yet perhaps not. The contemporary society retains a living culture and loving cultivation of Rabindranath's unique songs, prizing it more than any other gem from the magic trove that he had bequeathed us. The committee that has been holding the conference for a decade and a half is engaged primarily in the active dissemination of the skill and art of Rabindrasangeet. They do it by sending the best of teachers to the district towns and conducting year-round activity through district organisations. But the inner idea is to build a cultural platform basing on a broad spectrum of the musical legacy of the Bengalee people and also spilling its activity across to the other arts — all to fashion a point of precipitation for a cultural movement to develop and take hold of the society. The conference people think that Tagore song is a very good rallying point for addressing such a nation-sized programme.

There is ample sign that their exertions are already paying dividends. Bangladesh has already set its own standard in the art of Rabindrasangeet and this is being accepted and acclaimed across the border.

A parallel development in literature and the other arts will be necessary before a cultural movement can get going. And there is no sign of that anywhere. In the drama arena much positive and forward-looking work has been accomplished. We wish the conference godspeed in the achievement of their cherished goal.

# Foreign Capital Inflows: When Sweet and When Sour

by Abdul Bayes

The siren song of capital inflows could sound sour in the absence of proper outlets and inappropriate management. To live with more capital inflows and a stable RER, one needs to take account of the quality of inflows and the expenditure pattern

DEVELOPING countries, in their hunt for higher economic growth, usually find themselves shy of capital. Perhaps, that is why any news on foreign capital inflows is viewed as an advent of sunshine. However, the period of starvation from scarce capital seems to be dissipating gradually over the years and the hitherto unattractive regions/countries of the world seemingly began to experience a flood of foreign capital inflows. Needless to mention, much of this progress owes a great deal to the changing policy matrix of the capital recipient countries in the light of altered global economic scenario.

### The Good News

Asia and Latin America seem to be obvious choice for foreign investors in recent years. Western investors are reported to increasingly step in the emerging markets of Asia and Latin America with a view to reaping better harvests for their hard earned capital which, allegedly, tend to fetch lower interest rates back home. It could be ascertained from available statistics that only in 1993, in the emerging markets, foreign investors poured about \$200 billion — almost three times more than in 1990. Further, four-fifths of that amount is reported to knock at 12 countries of Asia and Latin America. Among Asians, the East Asian tigers and the ASEAN economies are reported experiencing heaves of capital inflows while, in this part of 'poor' Asia, China and India seem to be investors' next best alternatives. And in this preponderance, Bangladesh is also crawling with few

drops of capital inflows but mostly in the stock markets.

### The Bad News

Despite the presence of huge capital inflows in Asia and Latin America over the years, the differential macro-economic impact of such inflows in the two regions is grooming growing academic interests, especially to economists. It is being argued that in the past few years, real exchange rates (RER) in Latin America have appreciated *pari passu* the inflows and the margin of appreciation is reported to be more than that of Asia. As we all know appreciation of RER is inimical to competitiveness and if inflow of capital does tend to do that damage then, a priori, shouldn't inflows of capital be looked at with suspicious eyes? Let us recall the definition of the RER: ratio of domestic prices of goods and services to foreign prices. When domestic prices move faster, relative to the counterpart, foreign prices, the real exchange rate tends to shoot up. In a regime of fixed nominal exchange rate, capital inflows can push the exchange rate up by causing domestic inflation simply because more money needs to be printed to buy foreign currencies. On the other hand, in a world of currency floats, a high inflow of capital would cause it (and hence the real rate) to appreciate as people spend the incoming foreign exchange to

buy local currency and thereby increasing the price of the foreign currency.

There is, thus, a genuine case to be wary of big inflows of capital (Beware of big inflows). As said earlier, the appreciation of the RER would hurt exporters and benefit importers. It is reported that Argentine and Colombian exporters moan that high RER are hurting them through reduced sales and that the rapid appreciation of Brazil's new currency forced its government to impose taxes on foreign investments (The Economist, October-29 November 4, 1994). Exceptions are there, too. China, the biggest Asian recipient of capital is a special case with not that much of appreciation of the RER.

### Few Arguments

Some economists tend to argue that it would be erroneous to conclude, just on the basis of Latin American experience of appreciation of the RER, that the villain of piece is capital inflows. They opine that these countries are prone to high inflation and with high inflation, the RER goes up. So, no matter whether there is inflows or not, the RER would have faced certain spurt induced by the prevailing domestic inflationary rate.

Economists on the other side of the fence, of course, do pin some blame on capital inflows. They seem to tell us that

one should emphasize the 'quality' of capital inflows more than its 'quantity'. In other words, it is not how much of inflows take place but, in fact, what types of inflows take place that should be the major consideration in setting a correlation between RER appreciation and capital inflows in a country. As is well known, foreign capital inflows could be of many types viz. Foreign Direct Investments (FDI), share market investments etc. The former comes to stay in the country for a pretty long time while the latter, in many cases, come for a short visit like guest birds. Economists argue that FDIs generally cause little appreciation in the RER than other types of capital inflows. Why?

It is because, when FDI starts, new imports of equipment and raw materials also pick up. As the incoming foreign exchange is used to pay straight to the foreigners, the RER remains unaffected. And following this line of argument it can be reasoned that, in the Asian markets where the appreciation is reported to be less than that in Latin America, it could be, simply because a larger portion of capital inflows here comprised FDIs as compared to Latin America — a fact empirically found true.

Consider another argument. There is no doubt that Latin American capital inflows rose by 4 per cent of GDP between the 1980s and the early 1990s

but investment is reported to have barely changed. On average, investment is reported to constitute only one-sixth of national income as compared to one-quarter in Asian countries. But Latin Americans are alleged to have spent most of these inflows on consumption, demand for domestic goods and services and thus pushing up their relative prices. On the contrary, Asians appear as more investment minded where they utilize their inflows on imports of capital machinery and raw materials from abroad. It is true that there are regional differences in evidence in respect of this hypothesis but even the big investors in that region (e.g. Chile, Argentina) are reported to divert most of inflows to construction sector — a sector that banks mostly on locally made goods and services. And so the RER is up again.

The third argument says that Latin American Central Banks hardly succeeded in 'sterilising' capital inflows by selling bonds. Sterilisation buys back the local currency and, therefore, contains any pressure on the domestic money supply and hence on inflation and appreciation of RER. Asian central bankers are also not found apt in this act but, relatively speaking, they are more successful in this line of performance. Of course, the sterilisation practice so argued for has its own limitations. For

example, central banks have to pay higher prices (interest rates) for bonds to attract investors but higher prices would tantamount to losing money and thus crowding out private investment. On the other hand, higher interest rates might invite more of foreign inflows and thus making things still worse. The East Asian experience is a bit different. The Central Banks of East Asian countries forced their public institutions such as social security funds, public enterprises etc to hold bonds and thus mop the savings which Latin American bankers could hardly manage efficiently.

### Concluding Remarks

What follows then is that the siren song of capital inflows could sound sour in the absence of proper outlets and inappropriate management. To live with more capital inflows and a stable RER, one needs to take account of, besides the quantum, the quality of inflows and the expenditure pattern once the capital arrives. Otherwise, the 'sweet' foreign capital inflows might turn out to be 'sour' at least for a while. If sour, it might militate against the export sector and hug the inefficient import substitution — an outcome that none would wish, perhaps. The Central Bank has a pivotal role to play in this game and the government should have stricter controls on financial markets and institutions. And that should not come from ownership but from proper direction and through active vigilance.

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## Political Liberalisation should Match Economic Liberalisation

by Nizam Ahmad

NARASHIMA Rao should have long liberalised and democratised the Congress party just as, he and Mamohan Singh started liberalising the Indian economy. One of the oldest political organisations in the world, the Congress is not known to holding party elections to name their party chief and other executives. India's economic liberalisation cannot be the main cause for Congress' defeat in the South. The absence of democracy within the ruling party of India or any other party in India, is similar to that in our country in Pakistan and, is the root cause for common people's disenchantment with politics, politicians and the surprise defeat of Congress in India's recent regional polls.

India produces bright doctors, computer engineers, entrepreneurs, film stars, sportsmen but no politicians. They have to bank on the political dynasties to reach people, votes and the seat of power. Italian born Sonia Gandhi's denial to Congress requests to lead them, brought in Narashima Rao to head the party. There are no visible bright stars nowadays in Indian politics. The apparent reason has been the refusal to democratise Indian party politics from Nehru to Indira and Rao. It is unfortunate that economic liberalisation plans are to be blamed for election defeats when, the blame should fall on the practise of cult, and authoritarianism within their political parties. Popular Congress leaders like Sharad Pawar and Arjun Singh are the victims of party politics devoid of party elections to choose and make leaders. But, where the Indians are learning well to politicise economy unlike the socialist heydays of dictating growth and allocation, Bangladesh seems arrogantly unaware of the necessity to

keep economics separated from politics.

In Bangladesh also, it is suicidal to ponder on hartals, seize and gherao, as a part of a political movement. Public meetings jamming Motijheel and threats to disrupt normal life and commerce is making up poorer and the horrifying poverty level higher. The damage to local and international investment is incalculable. It wouldn't be surprising to witness organised defiance to such political calls destroying the economy. Shopkeeper associations, transporters, garment factory workers, importers and FBCCI leaders could well ignite street demonstrations to force change the present day art of politics. Our businessmen have possibly realised one point, they can no longer hold on to State protectionism for guaranteed profits and luxuries of the modern life. To retain and maintain their living costs they too must dive into the hard world of competition, innovation and intelligent investment. On their part, there is more willingness to face open competition having known the frustrating constraints to growth and entrepreneurship under government economic command and bureaucratic tangles. Unfortunately, the politicians and the bureaucrats are reluctant to deregulate and liberalise the economy as that might dwindle their power base.

Old kings and monarchs never encouraged their own merchant class to do business in their own territory lest the merchant class undesirably become more wealthy and powerful to threaten the authority of the monarchs. Foreign merchants were preferable as they would possess no such threat to monarchy or the ruling authority. Since those who wield

power think alike whether, in the times of Machiavelli or now, our powerful bureaucracy is unwilling to lose authority by liberalising business and economic rules. By shutting opportunities to Bangladeshis, the government of Bangladesh is all keen to build export processing zones (EPZs) to attract foreigners who are least likely to endanger the powers of the bureaucracy.

Multi-nationals were favoured till deeper politicisation of the economy under the Ershad era forced the exit of reputed international pharmaceutical firms. Multi-national or national, products should be decided by the demand and supply forces of the market and never by the government. Government drug policies under the autocratic era of Ershad destroyed the domestic pharmaceutical market. The people have no confidence in locally produced drugs yet, the local producers having amassed unimaginable profits are rapidly diversifying to other areas of business unrelated to medicine. We have no patent laws, intellectual property rights or a strong judiciary for foreign pharmaceutical industries to be interested in Bangladesh and until the government of Bangladesh sets about this legal infrastructure in the country, foreign direct investment (FDI) or portfolio investment will remain inadequate. What is needed is the liberalisation of the total economy and the return of the multi-nationals such as, SQUIBB, PFIZER, ICI to signal to the outside world that the Bangladesh market is indeed working and politicisation of the economy removed for the good of all.

Government's pride in macro figures cannot be an end in itself. 'Macro-

economies is dead end in the times of economic thought'. The way forward is to return to the classical tradition which emphasises the importance of uncertainty, innovation, entrepreneurship and institutional evolution. (David Simpson: The End of Macroeconomics? — IEA, UK). Government policies should facilitate the adaptation of workers from old jobs to new jobs, shifting taxes from employment to consumption and subsidies from unemployment to the search for, and acceptance of, new employment.

Unlike the old Soviet empire and today's China and India, Bangladesh does not have a large industrial base which must be shut down or modernised, cutting jobs and managerial privileges. Such protected industrial complexes do provide stiff resistance to government's liberalisation programmes. China is unable to control her inflation because she has to keep on protecting and financing the losing State-owned industries. She is also indecisive whether her liberal Southern Economic Zones should encompass the whole of territorial China — which may alter their political structure.

The fact that losing or obsolete industries should be shut down is quickly interpreted by the protectionist lobby, dominating the entire economy, that free market do not favour industrialisation of the home economy. Broadly speaking, industrialisation is of two distinct types. One being government designed import substitution industrialisation (ISI) as in China, India and Bangladesh and, the other being industrialization on the basis of comparative advantages as in free markets.

So long Bangladesh's indus-

trialisation process were wrongly based on ISI. The workers had poor wages despite guaranteed markets and industrial licenses. Products were inferior and prices high encouraging smuggling as markets refused to clear imperfect products. Bank loans remained unpaid and national resources continued to be disproportionately allocated (land, capital, utilities). It is obvious that this kind of economic planning and control resulted in inadequate industrialization employment.

Liberalisation and depoliticisation of the economy can most certainly restart industrialisation. If no country reciprocates our openness of the economy we can rely on the market forces to have our goods smuggled to their market. The faster we allow the market to function, the quicker can the economy generate jobs, income and a com-

petitive edge.

The majority of the people of Bangladesh rely on market forces (agriculture, trade, export) only, a tiny well connected favour-seekers justify political and bureaucratic control of the economy. This is not their fault as they only played by the rules, however imperfect, to survive in the market. They should now leap into the 'market world' no matter which country in the world today stands as a shining example of a free market economy for us to follow. In the beginning of the 21st century, let it be our pledge to lead and not to follow, to discard old business rules and instead, courageously embrace the natural laws of economics such as, global forces of the market and competition.

The writer is Chairman, MOER, a free market advocacy group.

## Rice Prices will Remain Unstable in '95

Juan L Mercado writes from Bangkok

Production in China has not kept pace with the projected increase in demand

IN 1995, the volatile international rice market will tighten further as China, which has seen its agricultural output shrink, buys into reduced world export reserves of 14.9 million tons — about 700,000 tons short of actual needs.

The United Nations Food and Agriculture Organization (FAO) sketched out this preliminary forecast at the 37th Session of the Intergovernmental Group on Rice.

FAO's Chan Laing Yap, a petite scientist from Malaysia, cautioned: international rice prices in 1995 may not strengthen to the extent such a deficit usually brings.

The UN officer pointed out rice buyers next year are likely to be China and Indonesia and, to a lesser extent, Bangladesh. Unlike affluent Japan, which bought heavily this year, the three have financial constraints.

But these three countries may also recover some of the crop damage incurred in early 1994 by expanded plantings.

"All three grow more than one rice crop," FAO said. "This is (not so) in Japan where only one paddy crop is grown and therefore any shortfalls in supply must be met through imports."

The UN agency pointed out 1994 has been an exceptional year for the world rice economy. Global rice trade rose to record levels.

The increase was mainly in the Far East — a result of exceptionally large purchases of rice by Japan to meet a domestic shortage caused by the failure of its 1993 paddy crop. In 1994, Japan accounted for 45 per cent of the region's total imports, FAO reports.

As 1994 draws to a close, the record shows Indonesia and China made substantial purchases following damage to their rice crops. This reversed the hard work self-sufficiency status achieved in 1993.

Exports from Thailand and the United States, the two largest sellers of rice in the world market, suffered set-

backs. Together, those two countries accounted for almost half of the world export trade in 1993.

As the curtains dropped on 1994, a series of unexpected events leaves very volatile international rice prices.

These events include: Japan's exceptionally large purchases, devaluation in Africa in January followed by the drastic outback in imports by Near Eastern countries, finally, the switch by China and Indonesia from rice exporters to importers in the second half of the year.

FAO said the strength of the international market is likely to be confined to trade in long grain indica rice.

In contrast, prices for medium grain rice may weaken substantially. With an exceptionally large increase (50 per cent) in its 1994 paddy harvest, Japan is likely to keep its purchases to the minimum level of 0.4 million tons that it is committed to make under the GATT (General Agreement on Tariffs and Trade).

Supplies of medium grain rice have increased. The US has boosted its 1994 production of medium grain rice by 0.3 million tons (18 per cent) to nearly two million tons (milled). "Australia's 1995 paddy production (almost all of which is medium grain) is forecast to rise slightly.

The harvest draw-down will be in China.

"This decline in global rice stocks would be the fourth in successive years," FAO says. Global rice consumption, however, is expected to remain virtually stagnant in many countries, especially in the Far East, per capita consumption will most likely decline.

In instances where the reduction is a result of scarcity or a tightening of supplies, domestic prices of rice will continue to rise," FAO predicts.

— Dephnerius Asia

## To the Editor...

### Power Generation

Sir, The NCBs, DFIs and other financial institutions have sanctioned hundreds of crores of taka to set up new industries. The implementation stage is going on. When commissioned, these industrial units will require huge load of power. But we have got very limited capacity of power generation. We are afraid, these industrial units will suffer at the very out set if we fail to provide them with required quantum of power.

We could learn that our neighbouring West Bengal (India) is going to make a big stride in industrial sector by the year 2000 as they have surplus power. Pakistan has also signed agreements with foreign countries to set up power plant to generate additional power to keep the process of industrialisations unhampered.

In our country the government has taken up a programme to set up a coal based power plant at Barapukuria. Also Khalashpur, Rangpur has got good deposit of coal. These coal can be used for power generation. The Ruppur nuclear plant of Ishurdi is lying unimplemented for years together. We can seek foreign aid to utilise this plant for power generation. So, why aren't we doing go? Above all we should seek

foreign help to set up a number of small power generation plants in Bangladesh. We can invite foreign investors to help build this sector. If we fail to generate enough power, our efforts for industrialisation will be in vain to a good extent. We should attach all importance to it first. The production of sufficient power will also minimise the system loss.

Mahbubul Haque Chowdhury, Kalabagan, Dhaka

### Sylhet-Zakigonj road

Sir, Sylhet-Zakigonj road is one of the oldest and busiest roads in the greater Sylhet area. There is heavy traffic on the road and of late increased number of heavy trucks and lorries with imported coal from India are also plying over the road. At the moment condition of the road beggars description. Lot of cracks and potholes have developed on the surface. The importance of the road demands that it should be maintained regularly. But it seems that Roads and Highways department is neglecting the road to its heart's content. May be they have a different tale to tell. Unless urgent steps are taken to repair and renovate the road, incalculable damage is sure to be caused. I personally feel that instead of taking up construc-

tion of a large number of new roads every year which is, no doubt, a popular step, maintenance of the existing roads should be given priority. May I therefore, request the Ministry of Communication to take up maintenance of this vitally important road which leads up to Indian border from Sylhet town urgently and earnestly.

Saleh Ahmed Chowdhury, Dhaka Cantonment

### Price of rice and hartal

Sir, The price of rice has shot up suddenly, the common quality of which is being sold at the rate of Taka 15.00 per kg in Dhaka market.

Rice is the staple food of millions of people of Bangladesh. Its price largely depends on the condition of harvest, weather, maintenance of stock, law and order situation in the country and prompt transportation from one place to another whenever necessary.

If our Ministry of Food and Agriculture remains alert and vigilant, monitors the harvest and the stock position properly, and ensures transportation of rice timely, there is no reason for anxiety and price hike.

The suspension of movement of rice, vegetables and fish even for a day causes ter-

rible economic losses and untold sufferings to the common people.

Would our opposition leaders kindly consider to keep the transportation of rice and perishable food items away from the purview of frequent hartal, strike and road blockade?

O H Kabir, Dhaka-1203

### Road dividers

Sir, since some or rather most of the drivers of vehicles, specially drivers of minibuses and trucks, cross the double yellow lines of roads along the middle with total disregard to traffic rules, the Dhaka City Corporation deserves whole-hearted support for fixing road dividers on important roads burdened with heavy traffic movement.

We would very much appreciate if the Dhaka City Corporation takes up the work of putting up road dividers on such roads where traffic is heavy and which are yet to be provided with road dividers.

It would be very much appreciated if the Public Relations Dept of the Dhaka City Corporation inform the public through newspapers of their plans and programmes in this regard.

M Shaikh, Mirpur, Dhaka