

UN aid-appeal for Chechnya

GENEVA, Mar 24: The United Nations on Thursday launched a 22.9 million dollar appeal to supply aid to refugees from the war in Chechnya, reports AFP.

Economists warn of weak dollar this year

WASHINGTON, Mar 24: The US trade deficit soared in January to 12.2 billion dollars, prompting fresh warnings from economists that the already weak dollar will fall this year by one percentage point, reports PTI.

The impact was immediate: the dollar fell against the Japanese yen to 88.95 from 89.21 the previous day, and against the German mark from 1.4122 to 1.4027. When the dollar fell below 100 yen, it became a landmark. Now no one seems to care that it has fallen below 90.

About 900 million dollars of the US trade deficit was due to events in Mexico. Mexico has now moved from a trade deficit to small surplus in its trade with the US.

US exports fell in January by 400 million dollars compared to December while Mexico's exports went up by nearly 500 million thanks to the fact that the peso's value against the dollar has dropped 50 per cent.

Optimistic American economists who had been predicting a 3.5 per cent growth rate for the US economy in 1995 are now predicting a 2.5 per cent growth.

New WTO Chief pledges to promote world free trade

GENEVA, Mar 24: Italy's Renato Ruggiero, whose nomination was approved as head of the new World Trade Organisation (WTO), said yesterday that promotion of global free trade would be his key aim, reports Reuter.

He told reporters he also pledged to ensure that the interests of developing countries were protected and that the world's poorest states were helped to build their economies.

"We have to promote free trade and strengthen the multilateral trading system. These will be the two pillars that will guide my action," the 64-year-old former Italian trade minister declared.

His remarks came just before envoys from the 128 present and pending members of

the WTO, launched on January 1, were to meet to formally approve a recommendation that he be offered the post, the focus of nine months of international bickering.

Ruggiero was the candidate of the European Union and only this week won the clearly reluctant backing of the United States — which wanted ex-Mexican president Carlos Salinas De Gortari in the post until he pulled out of the race early this month.

To clear the way for an end to the damaging stand-off, the United States persuaded South Korea to pull out its own candidate, Ruggiero's only remaining rival, in return for a promise that he would be made a deputy to the Italian.

But the backstage deal and the way it became known, an-

gered many developing countries, including those who had backed Seoul's Kim Chul-Su, and they held up immediate endorsement of Ruggiero.

Arrangements for his approval were finalised on Thursday when he met WTO General Council Chairman Kishnasamy Kesavapany of Singapore and Munir Zahran, Chairman of the Council of the General Agreement on Tariffs and Trade (GATT).

GATT, founded in 1948, is being absorbed by the WTO which was created under the Uruguay Round trade treaty signed in Morocco last April and has wider powers to enforce agreed world trading rules than the old body.

Ruggiero — whose career spans government, diplomacy and business — told reporters

Probe into US-S Africa deals opens

WASHINGTON, Mar 24: Agency for International Development investigators are looking into allegations that AID officials illegally steered lucrative grants and contracts to blacks in the United States and South Africa, reports AP.

A spokesman for AID said Leslie Deap, director of the agency's South Africa mission, is a focus of the investigation.

The investigation was opened in January by AID's inspector general, the agency's internal watchdog.

The probe was prompted by a complaint from Paul Neifert, an AID employee who was transferred from South Africa last year after he complained about the agency's policies, government correspondence shows. Several other employees have made similar charges.

Neifert alleges the agency began excluding non-blacks

from most contracts and grants in its South Africa programme in late 1992, when new managers took over. AID distributed more than 200 million dollars to South Africa last year.

"One result of this policy is that taxpayer resources are being squandered as race-conscious AID bureaucrats and administration political appointees struggle to illegally favour blacks and discriminate against all other racial groups," Neifert wrote in a February 6 letter to Senator Fred Thompson.

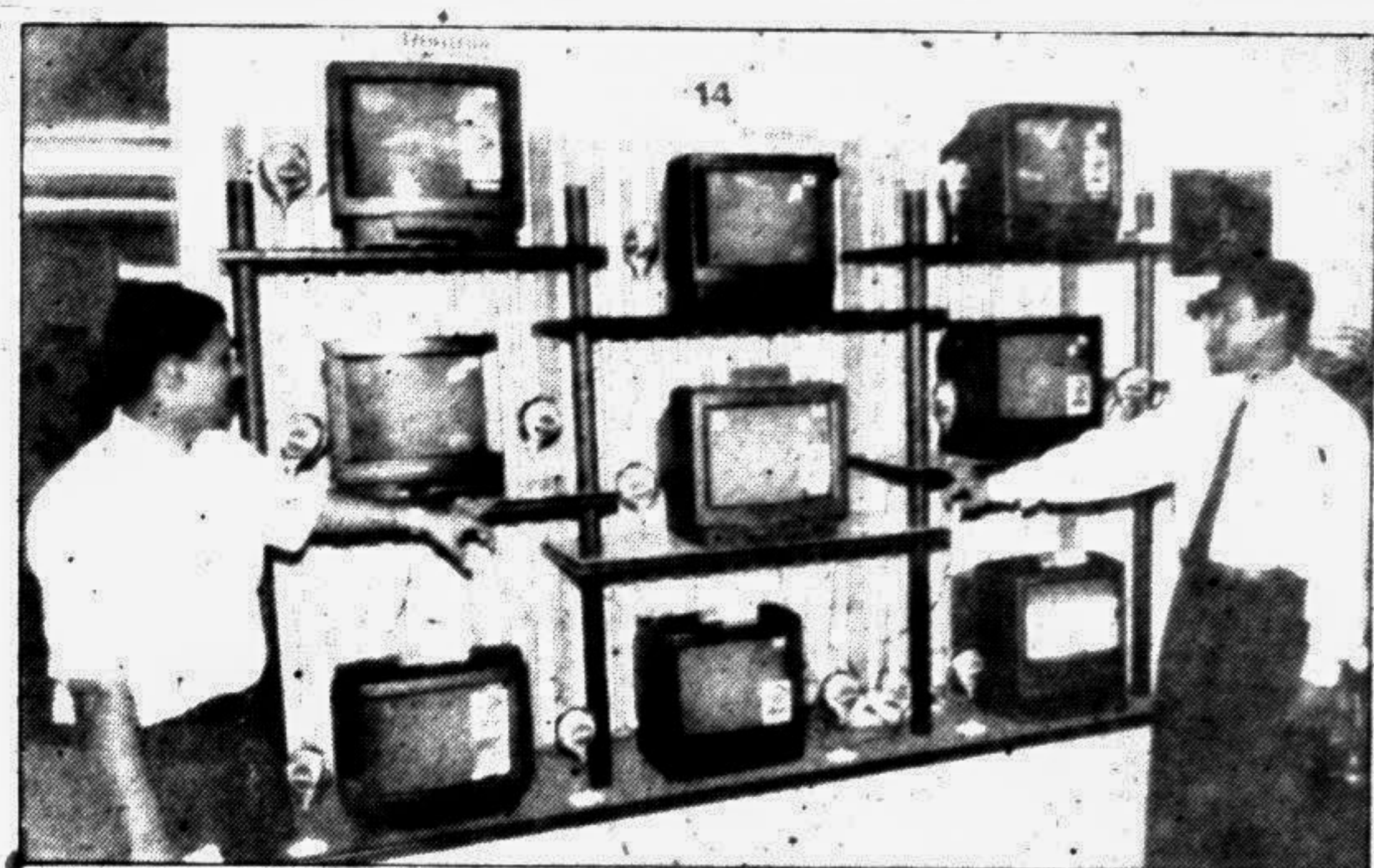
AID gives mission directors like Dean wide leeway to award grants of up to \$5 million, but requires competitive bidding for contracts above 100,000 dollars.

Documents show other AID workers have also alleged that

the South Africa programme has been discriminating against whites and other minorities.

"Every significant activity developed by USAID-South Africa since the change of management two years ago that calls for substantial US resources has been structured as a minority set-aside programme, intended for African-Americans if at all possible," Harry R Johnson, Neifert's former boss in South Africa, wrote two congressmen last November.

Johnson wrote that some entire programmes, such as a \$10 million housing project, were set aside for black-controlled companies, and one project worth up to 25 million dollars was canceled because it could not be awarded to blacks.



A partial view of the three-day Sony Exhibition '95 at Dhaka Sheraton yesterday organised by Rang- Electronics Ltd. — Star photo

Biswas opens Sony sales confce

By Staff Correspondent A three-day Sony sales conference and product display began at Hotel Sheraton in the city yesterday.

Jointly organised by Rang Electronics Ltd and Sony International (Singapore), it was inaugurated by President Abdur Rahman Biswas and the sales conference was attended by Sony dealers from across the country.

The exhibition, at the hotel's ballroom, puts on display the latest home entertainment systems produced by Sony including wide-screen TVs, mini disk players, car stereos, camcorders, telephone sets, walkmans, batteries, and TV and VCRs that can be run on both AC current and DC batteries.

The conference was accompanied by a slide-show highlighting Sony sales in Bangladesh and a video introduction to the world of Sony electronics.

BSS adds: The inaugural function was addressed among others by Yoshihisa Kuroda, Charge d'Affaires, Embassy of Japan, M Koderia, Managing Director, Asia Marketing Company, Sony International (Singapore) Limited and Aktar Hossain, Managing Director, Rang Electronics Limited.

President Biswas said Bangladesh had already liberalised the investment policy and the climate was quite favourable for foreign investment.

Kuroda in his brief speech referred to the growing cooperation between Bangladesh and Japan and said this cooperation would be further expanded in the years to come.

The show will remain open to public today and tomorrow from 9 am to 5 pm.

Union Credit, Chinese co sign contract

The Union Credit Co-operative Society Ltd has signed a contract with Harbin-based Chinese company for assembling three-wheeler vehicles, says a press release.

The contract was signed in the city recently as part of society's good number of projects taken up for 'self employment purpose'.

The vehicles are going to be produced in Dhaka soon. The Chinese Co is assisting the society to make this project a success.

Besides this project, the Chinese company is ready to extend its co-operation for promotion of any type of industrial projects in Bangladesh through this Society with machinery and technology to be supplied from China.

Hanoi, Jakarta agree to diversify trade

HANOI, Mar 24: Vietnam and Indonesia have agreed to diversify trade and minimise customs barriers to each other's exports, official reports said Friday, reports AP.

The two countries' trade ministers signed an agreement Thursday that marks another step forward for communist Vietnam as it tries to integrate with more developed economies in Southeast Asia.

Indonesia is the most populous member of the Association of Southeast Asian Nations, which Vietnam plans to join in July. Other ASEAN member nations are Thailand, Malaysia, Singapore, Brunei and the Philippines.

Indonesia's Trade Minister Satrio Budihardjo Joedono signed the agreement with his Vietnamese counterpart Le

Van Triet. The pact included a pledge to avoid trade in counterfeit goods that violates intellectual property rights. Satrio B Joedono left Vietnam Friday.

During his delegation's four-day visit, Vietnam also agreed to join the Association of Coffee Producing Countries, the state-run Vietnam News reported. Vietnamese Agriculture Minister Nguyen Cong Tan reportedly approved of Vietnam's joining the group as a way to help stabilise coffee prices.

Officials at Vietnam's Agriculture Ministry could not immediately confirm the report, which coffee traders welcomed as a sign of Vietnam's growing reputation as a source of the commodity.

Foreign investors and the new SEC regulations

by Feisal Siddiqi

It is heartening to read in the newspapers that the Securities & Exchange Commission (SEC) is reconsidering the 1 year lock-in period for foreign investors, based on the latter's unequivocal representations to the Commission. The affected parties, the foreign investors, could perhaps have been consulted prior to the regulations being formulated, which would have saved the SEC considerable embarrassment. In this case the timing was also bad, as the just concluded Euromoney Investment Conference had the senior-most gov. leaders reassuring foreigners of the stability and openness of their policies. Furthermore, there was already a bearish sentiment and relative withdrawal from the emerging markets in the wake of the Mexican crisis and rising US interest rates. The introduction of more restrictive regulations in Bangladesh at this stage was like the proverbial 'final nail in the coffin'. In fact the major complaint of the Foreign Institutional Investors (FIIs) about the Bangladesh market was a lack of liquidity, i.e. they found it difficult to sell large blocks of stock at short notice (in other words a default lock-in).

The comparison with regulations in other S Asian countries (Sri Lanka, Pakistan, India), quoted as the primary basis for introducing this lock-in period, is wrong for two reasons. 1) The regulations of the neighbouring countries were not examined in enough detail and were therefore, inaccurately interpreted. India has a 5 year lock-in period for all private placements, whether to Indians or foreigners, in existing publicly quoted companies. These placements are subject to a minimum price, based on previous 6 months market prices, to protect the interest of existing shareholders (this kind of private placement, bypassing rights issues, is not permitted in Bangladesh). Since the privately negotiated placement bypasses the market and the existing shareholders, the lock-in prevents near term dilution and depression of the stock price through a sell-off. In case the Bangladesh regulations are amended to allow this kind of private placement, the Indian type restrictions could also come in side by side. In Pakistan, no placement, foreign or local, is allowed for issues whose total capitalization is below Rs 20 crore (except from sponsors equity) Only, preferentially priced allocations at par, where the Initial Public Offering (IPO) is at premium, is subject to a 3 year lock-in

(whether to foreign or local entities). Again, this is hardly relevant for the Bangladesh market given that preferentially priced allocations are not allowed in the first place. Sri Lanka adheres to a code of conduct, where issues placed within a year, and as such foreign holders are unable to sell before the listing completion. In fact, this distinction between pre-IPO and IPO placements has to be clearly made in Bangladesh as well, for reasons which are more fully explained later, and the SEC regulations have to be modified accordingly. 2) The tendency to compare with our South Asian neighbours on all economic policies is quite demoralizing in one sense, as there is no reason why we cannot think independently for ourselves and formulate superior policies rather than always play follow the leader. This is particularly galling when we talk about India.

Firstly, India, because of her sheer size, has tremendous built-in advantages and can thereby afford some laxity and slowness in her reform process. By no stretch of the imagination can Bangladesh afford the same luxury — she needs to forge well ahead of India with far superior policies in order to remain competitive and attractive vis-a-vis India to foreign investment and trade. Secondly, India has historically been far more over-regulated. We are however content not to exploit this edge and are instead frittering away our lead by constantly using India as a reference point. India is still suffering from fundamental divisions and slow economic reform. Our political problems are only skin deep while the reform process enjoys wide support and can be speeded up dramatically. Thirdly, we can detect a certain attitude on the part of our policy makers — comparisons to Sri Lanka and Pakistan are apparently beneath us, India being more our level. To use some apt modern jargon, we need a 'reality check' here. Sri Lanka's stock market capitalization is \$3 billion and per capita income is \$670 while Pakistan's figures are \$13 billion market capitalization and \$440 per capita income. We should be more focussed about keeping up with Lanka and Pakistan rather than thinking about India, which is in a different league altogether. I therefore, differ strongly with Prof Rehman Sobhan when he says that the recent regulations were a "step in the right direction". This opinion

was expressed in the context of a newspaper article concerning the Euromoney conference, which included an assessment of the relative importance of portfolio and direct investment. The article encapsulated many commonly believed fallacies, even at the highest (and apparently expert) levels, and it would be worthwhile at this point to look more closely at the issues involved. What is the role and importance of portfolio investment and what have we observed so far during the short period of the last 2/3 years in Bangladesh? We have firstly noticed a surge in activity, buoyancy, and prices on the market with the result that the interest of the local investors have been considerably aroused. Prices of scrips have gone up, since returns on capital employed in Bangladesh (marginal efficiency of capital) are much higher than in the capital rich countries. Foreign investors have pushed up the prices to reflect their own parameters, which were hitherto quite different from those of the local investors. These substantial increases in the general level of scrip prices have made capital much cheaper for local businesses. Equally important is the ease of raising capital through the markets compared to the highly dysfunctional financial interdependence in Bangladesh (DFI's, commercial banks etc.). As a result of this cheap and easily accessible capital, there has been a surge of investment by the larger business groups. For example, a new composite textile mills (Tk 200.00 crore each) to feed the RMG sector have been initiated, where BSB has been struggling to even approve 3 such projects since 1988, despite Govt. policy explicitly recognising the need for such investments over a decade ago and designating textiles a thrust sector. Since these and many other sizeable businesses (for example) are coming on to the ground, it is quite immaterial whether the FI holding is retained or sold out quickly. The important thing is that the real investment in physical productive assets has taken place through the crucial function of efficient financial intermediation in matching the demand for capital for productive investment with the supply of passive savings. A corollary is that this diversion of both savings funds and capital borrowing will force the traditional financial intermediaries, i.e. the banks, to be more responsive and ef-

ficient, in order to hold on to their best customers. The banks will also have to start thinking big and not balk at anything over Tk 50-100 crore, otherwise they will lose all the relatively large projects, particularly when the securitized debt market starts to develop. Apart from the healthy expansion of the markets (due to the increased demand from corporates and the increased investor interest and diversion of savings) there are many other less noted but nevertheless important benefits derived from the FI's participation: 1) A rapid transfer and dissemination of knowledge about various aspects of financial markets to Bangladeshis (who are quite poorly informed). 2) A sharpening of the skills of the corporates in identifying viable/feasible projects, formulating/presenting their financial and management structures, and thinking globally, both in terms of project identification and financing options. 3) A transfer of investment banking skills to the local brokers, merchant bankers, insurance companies, DFI's commercial bankers, etc. At the same time, FI's are the driving force behind new types of financial investments and institutions (e.g. mutual funds). 4) The exposure of the Bangladesh market and economy to the rest of the world through FI's interest and activities, including the floating of dedicated Bangladesh Funds. 5) The effective promotion of Bangladesh as a good bet for Foreign Direct Investment (FDI). It must be appreciated that this portfolio investment activity is the surest and most effective precursor to shy direct investment. Bangladesh's image as one of the world's poorest countries (basket case), climatic disaster prone area, natural resource poor region, and politically unstable nation with a strangulated economy cannot be overcome overnight. The mere trickle of FDI is ample testimony (if any is needed) to this fact. Foreign capital in the form of portfolio investment started coming in simply because it was given the flexibility to exit at any time: It has stayed not because of regulations but because it found the fundamentals of the market and the economy attractive. This alone has been Bangladesh's most effective advertising message, carried by the most credible of independent messengers. 6) The luring in of more long term capital from abroad. The influx of short-term port-

folio investment is likely to bring in its wake more long term capital in the form of venture capital funds, private equity, and debt in the form of dollar denominated bonds. These financial and associated information flows are also likely to lead to more fully integrated FDI, in the form of both financial and management stakes, particularly where the financial structure incorporates a public listing or long term market debt from the greenfield stage. FDI is initially more likely to be in the infrastructure area, such as telecommunication and power (which alone could generate new market capitalization of well over \$ 1 billion within a short time, which are however bogged down at the moment due to the Government's foot dragging on policy formulation and implementation. Overall, therefore, there can be no doubt or confusion about the merits of portfolio investment by FI's. The more subtle question is, under what conditions should Bangladesh attract the same? To my mind, there is no need or justification to discriminate or differentiate between locals and foreigners. There should be no preferential treatment in terms of allocations from new offerings, capital gains taxes or lock-in restrictions. In other words, if large blocks of securities are placed to institutional foreign investors before the IPO, the option of placing the same with local institutions should also exist. This pre-IPO placement mechanism is particularly important for Bangladesh corporates, because it works like a kind of bridging loan to cover project implementation expenses prior to receipt of money from the public offering, particularly for greenfield projects. Given that the usual institutional sources of bridging loans are difficult to cope with, this avenue should be expanded, not squeezed out. A category of pre-IPO placement should be defined, say for example a minimum 3 months prior to the actual IPO, which can take up to a maximum 50% of the total IPO. This pre-IPO placement may be to either foreign or local institutions and taken up by whoever is more aggressive and forthcoming (so far the foreign investors). There is a default lock-in on this type of placement upto the IPO and listing of the stock. For the balance amount offered later at the IPO stage, there could be a portion reserved for large institutional investors which both local and foreign institutions could apply for. The lock-in restriction as an insurance against volatility

of the "Mexican Crisis" kind is not at all appropriate for Bangladesh. Firstly, the Mexican budget and external balance deficits are huge compared to Bangladesh's sober macro fundamentals, while the peso value was unsustainable. Secondly, the total FDI holding in Bangladesh is not more than \$ 150 million, a small amount by any standards. While this is a relatively large proportion of the total market capitalization (\$1 billion) and the free float, it is small in terms of the external balance, reserves and the GNP, since the total market capitalization is itself very small as a percentage of these macro economic parameters. The more attractive the fundamentals of the economy and the regulatory environment, the less likely is a flight of foreign money, whether short term or long term. That is the surest prescription, for the markets, the foreign investors, and the real economy. It is telling that no amount of har- tals and political rhetoric has disturbed the market so far. Regulations and restrictions can never tie down the foreign investors — they will simply avoid coming to the party in the first place. It takes investors will all kinds of time horizons to create a liquid and vibrant market: driving out investors with a short term horizon will drive out others as well. The lock-in restriction is neither justified nor of any use given the scenario as described above. Therefore, there should not be any lock-in period for either foreign or local investors. The flexibility carries a great premium for foreign investors (whether it is used or not), particularly for a marginal market like Bangladesh. In fact this premium would be substantially more than the cost of a capital gains tax, which the Govt. can certainly consider introducing for both local and foreign investors without discrimination. At the end of the day, the SEC must keep in mind not only the interests of the investors, foreign and local (especially the small ones) but also the health of the issuers themselves, which is the only long term guarantee for the investors and the market in general. While this balancing act is not always easy, we are hopeful that the SEC will move steadily and rationally in the right direction despite its relative inexperience. (The author is Director of Equity Valuation Research and Distribution Ltd. He is Associate Professor, IBA and Member Executive Committee of MCC)

Titas Gas Transmission & Distribution Co. Ltd. (A Subsidiary Company of Petrobangla) 105, Kazi Nazrul Islam Avenue Kawran Bazar C.A., Dhaka-1215 Amendment of bidding documents relevant to procurement of line pipes, bends, P/E tape & primer and valves under ADB Loan No. 1293-BAN (SF), Third Natural Gas Development Project, Part-'C', Titas Component. IFB Nos. PD. 2312/365-P, PD.2312/365-B, PD.2312/365-T&P & PD.2312/365-V, Issued on 26-01-95. Names of the following two new member countries are to be added to the 'List of Member Countries of Asian Development Bank' provided under Section-VII Annexure-'d' at page-49 of all the above mentioned bidding documents: 1) Kazakhstan. 2) Kyrgyz Republic. Other terms & conditions of the bidding documents shall remain unchanged. "পাছ লাগান পছের পরিচর্যা করুন এবং পরিবেশ বাচান" — প্রধানমন্ত্রী Deputy General Manager (Purchase)

গণপ্রজাতন্ত্রী বাংলাদেশ সরকার নির্বাহী প্রকৌশলীর কার্যালয় গণপূর্ত বিভাগ, শরীয়তপুর। দরপত্র আহবানের বিজ্ঞপ্তি (দ্বিতীয় আহবান) দরপত্র নং ১০(দশ)/১৯৯৪-৯৫ (ই/এম) নিম্নবর্ণিত কাজের জন্য কেবলমাত্র গণপূর্ত অধিদপ্তরের অনুমোদিত প্রথম শ্রেণীর তালিকাতুক্ত ই/এম ঠিকাদার/ফার্ম এবং গণপূর্ত অধিদপ্তরের অনুমোদিত ২য় শ্রেণীর ই/এম ঠিকাদার/ফার্ম যাহারা বাংলাদেশ সরকারের বৈদ্যুতিক লাইসেন্সিং বোর্ড কর্তৃক বৈধ এ,বি,সি/বি,সি সুপারভাইজারী লাইসেন্সপ্রাপ্ত তাহাদের নিকট হইতে ২৯১১ নং বাংলাদেশ করমে সীলমোহরযুক্ত দরপত্র আহবান করা যাইতেছে। ৪-৪-৯৫ইং তারিখ বিহর ১২-০০ ঘটিকা নাগাদ নিম্নস্বাক্ষরকারী এবং বরিশাল গণপূর্ত সার্কেলারী সর্বল গণপূর্ত বিভাগে দরপত্র গৃহীত হইবে এবং একই দিন অপরাহ্নে ১২-১৫ মিঃ আধাঘণ্টা ঠিকাদারদের যাহারা উপস্থিত থাকুন। সমুখে খোলা হইবে। ২। কাজের নামঃ বাংলাদেশে ৪৪টি জেলা সদর নির্মাণ প্রকল্পাধীন শরীয়তপুর একটি উপখাতঃ শরীয়তপুর জেলা ডি,সি কোর্ট ভবনের ২৫০ কে,ডি,এ সার্কিটেশনে সরযোগের লক্ষ্যে এইচ, টি ওভারহেড লাইন স্থাপনের কাজ। ৩। প্রাক্কলিত ব্যয়ঃ টাঃ ১,৫০,১৯৯/- মাত্র। ৪। জামানতের টাকাঃ টাঃ ৩,০৬৪/- মাত্র। ৫। কাজ সমাপ্তির সময়সীমাঃ কার্যাদেশ প্রদানের তারিখ হইতে ২০ (বিশ) দিন। ৩-৪-৯৫ইং তারিখ নাগাদ অফিস চলাকালীন সময় প্রচলিত মূল্য প্রদান পূর্বক নিম্নস্বাক্ষরকারী এবং নির্বাহী প্রকৌশলী, গণপূর্ত বিভাগ, বরিশাল/জেলা/পটুয়াখালী/বরগুনা/ঝালকাঠি/পিরোজপুর/মাদারীপুর/গোপালগঞ্জ এর কার্যালয় হইতে টেন্ডার ফরম, আইটেমসমূহের তফসিল, স্পেসিফিকেশন ইত্যাদি এবং বিস্তারিত শর্তাবলী সংগ্রহ করা যাইবে। মোঃ ফজলুল হক নির্বাহী প্রকৌশলী ডিএফপি-৬৪৯২-২০/৩ গণপূর্ত বিভাগ, শরীয়তপুর। জি-৪৩৫