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DHAKA WEDNESDAY, JANUARY 10, 1996

Iraq plans new taxes to reshape economy hit by UN sanctions

BAGHDAD, Jan 9: Iraq's government is raising the cost of utilities and state services and plans new taxes in a campaign to restructure an economy devastated by UN sanctions, residents said yesterday, reports Reuters.

Iraqis, striving under superinflation to make ends meet, have been told the state can no longer provide high subsidies.

Ministries that once charged a few cents for their services are raising their fees, taking cost and profit into account.

An international call, which used to cost less than 100 dinars (about four US cents), could now go up to 30,000 (about 10 dollars) for three minutes. The cost of installing a new phone or telex has risen to up to two million dinars from a maximum of about 60,000.

Residents say the government is discussing ways of increasing revenues through direct taxes. President Saddam Hussein, in an effort to fight rampant tax evasion has pledged to give taxmen financial incentives in line with the money they collect for the state.

Income tax may be expanded to include more people.

They (government) realised that they cannot go on propping up the economy by printing more and more money. They were afraid that they could reach a state where their money could become worthless, said a Baghdad based diplomat.

UN relief officials said inflation for essential commodities in Baghdad was running at more than 5,000 per cent because of trade sanctions imposed on Iraq, including a block on oil exports, following its invasion of Kuwait in 1990.

The diplomat said Iraq needed to revamp its banking system, raise interest rates and remove obstacles to private investment.

The government is trying to withdraw excess money from circulation. Advertisements published in the newspaper Babel, owned by Saddam's eldest son, Uday, offer a variety of state items for sale — cars, machines, caravans, steel, refrigerators, electric ovens and other household goods.

The government has told

ministries to get rid of 25 per cent of their vehicles. These include personal limousines used by Saddam and his presidential office as well as vehicles of the Military Industrialisation Commission (MIC).

Even state property is offered for sale.

Traders said the state had more assets for sale than at any time since the start of the Gulf War almost five years ago. But one said demand for such items was slack as most traders were taking a wait-and-see attitude.

Money changers said it seemed the new measures had halted a precipitous slide in the dinar's value which hit a record low of 3010 to the dollar a week ago but was trading at 2885 on Monday.

Saddam told his ministers in a meeting late last year and made public early in 1996 that the government should fight inflation with all means.

He ordered a freeze in salaries and recruitment of new personnel. The government is said to have stopped printing new money and told ministries to adopt tough belt tightening measures.

Residents said they expected power and water fees to go up to meet costs. Petrol prices were also likely to surge.

The oil ministry, in an advertisement in Babel, urged the public to use its cheap oil products rationally.

Iraqi dinar falls

Another AFP report says, the Iraqi dinar, in free fall since crippling UN sanctions were imposed in August 1990, plunged further yesterday to reach 2,800 dinars to the dollar on the black market, money changers said.

The official rate of the dinar is fixed at 3.2 dollars. But last month the greenback was changing hands for 2,500 dinars.

Meanwhile, exchange bureau were allowed for the first time by the central bank to buy foreign currency at the black market rate, traders told AFP.

UN oil and trade sanctions were slapped on Iraq when it invaded Kuwait in August 1990 and have robbed the country of vital revenues from oil exports which made up 90 per cent of its income.



On the second and concluding day yesterday of the Opposition called hartal, a money changer is seen experiencing dull business by counting new notes only in Gulistan area. — Star photo



New Chairman of Petrobangla

Dr Mujibur Rahman Khan has joined Bangladesh Oil, Gas and Mineral Corporation (Petrobangla) as its chairman, says a press release.

Prior to joining to Petrobangla, he was the Director General of Geological Survey of Bangladesh (GSB).

Dr Khan joined the then Geological Survey of Pakistan in the year 1960 and worked there till 1971. From 1972 Dr Khan worked in the Geological Survey of Bangladesh.

Dr Khan did his masters in Geology in 1959 from the University of Dhaka. He obtained Ph.D in 1976 from the Lubiana University of Slovenia in Geology.

He worked as a part time teacher in Dhaka University from 1977 to 1981. He is also a senate member of Dhaka University.

Dr Khan received training in different branches of Geology in US and Canada. He attended many seminars and conferences in different countries on different subjects.

Keating's visit to focus on Australia-Malaysia trade ties

KUALA LUMPUR, Jan 9: Regional security in the post Cold War-era will be on the agenda when the prime ministers of Australia and Malaysia meet next week, a newspaper reported Tuesday, reports AP.

Prime Minister Paul Keating's visit to Malaysia January 15-16 will be the first by an Australian leader in 13 years and signals a warming of relations.

Bilateral ties dipped to an all-time low after Keating called Malaysian leader Mahathir a "recalcitrant" for boycotting the inaugural 1993 summit of the Asia Pacific Economic Cooperation in Seattle.

The Australian ambassador, John Dauth, said in an interview published Tuesday in the Business Times that security issues in the post Cold War Asia-Pacific are only just beginning to take shape.

"The Cold War is over, the players are different. Each of the countries has great self-reliance and this has clear implications for security," he said.

There are new players in the security equation now. While they are not necessarily malevolent, Dr Mahathir himself has said China casts a long shadow over the region," Dauth said.

A loose security cooperation framework already exists

in the region in the form of the Five Power Defense Arrangement comprising Australia, Malaysia, Britain, New Zealand and Singapore.

Although not an alliance, it requires the five partners to "consult together" during times of external threat to Malaysia and Singapore.

Last month, Australia entered into a similar bilateral security cooperation pact with Indonesia, officially ending an era of mutual suspicion.

Malaysia's relations with Australia also were rocky through the 1980s after Malaysia executed convicted Australian drug traffickers, which Australia criticized as barbaric.

An Australian movie that depicted the slaughter of Vietnamese refugees in Southeast Asia also upset Kuala Lumpur, which said the insultation was that Malaysians were the perpetrators.

"The fact that this visit is finally being made is testament that this period is over, we can put that behind us," Dauth said.

I think both sides have come to understand the mutual benefits in the bilateral relationship, and that this is not just a bit of old fashioned historical sentiment," he said.

Malaysia next year is expected to become a bigger trading partner with Australia than their former colonial master, Britain.

"There are actually cold, hard benefits such as money, dollars but also security benefits. Malaysia and Australia's security is indivisible," Dauth said.

He said Mahathir and Keating would also discuss cooperation in science and technology.

Inflation hits Mexico severely

MEXICO CITY, Jan 9: Millions of Mexican workers have lost their jobs or seen their salaries squeezed by inflation that topped 50 per cent last year, a union leader said yesterday after meeting with President Ernesto Zedillo, reports AFP.

It is difficult to convince US that we are moving forward," said Leonardo Rodriguez, head of the union of electrical workers after the meeting attended by 17 labour leaders.

Also at the meeting was Fidel Velazquez, the elderly and venerable leader of the powerful Mexican Workers Confederation, a close ally of the Institutional Revolutionary Party (PRI) that has ruled Mexico since 1929.

Thai rice export hits six-year high in '95

BANGKOK, Jan 9: Thailand's rice exports jumped 25 per cent from a year earlier to six million tonnes in 1995, the highest level in six years, as demand soared to cope with natural disasters across the region, a commerce ministry official said yesterday, reports AFP.

The value of rice exports climbed 18 per cent to 46 billion baht (1.8 billion dollars) in the same period, the official said.

The increase is because other rice exporting countries suffered from serious natural disasters, such as flooding in Vietnam," the official said.

He added that most of the rice was destined for Asia, with China taking about one million tonnes and Indonesia importing about 600,000 tonnes.

It was the highest level of rice exports recorded by Thailand since 1989, when six million tonnes of rice worth 40 billion baht was exported.

The 1995 figure surpassed the rice export target of 5.7 million tonnes set by the government in October.

Thailand, which is the world's largest exporter of rice, achieved the bumper sales despite having large tracts of farmland destroyed by prolonged flooding from July to November.

Labour Party leader says Britain can learn from Asian tiger economies

SINGAPORE, Jan 9: British opposition Labour Party leader Tony Blair said here Britain could learn from the social cohesion in Asia's booming "tiger economies" and should become a country in which every citizen holds a stake, reports Reuters.

Blair, on the final day of a private three-day visit to Singapore, told business leaders one feature of fast-growing Asian economies was the key role of teamwork.

Speaking at the British High Commissioner's residence, Blair praised aspects of the social systems in countries like Singapore.

"Working as a team is an effective way of working or playing a sport or running an organisation... a successful country must be run in the same way," Blair said.

"We need to build a relationship of trust, not just within a firm, but within a society... a stakeholder economy in which opportunity is available to all, advancement is through merit, and from which no group of class is set apart or excluded."

Blair's centre-left party holds a 30-percentage point lead over the ruling conservative party in opinion polls, in a message clearly designed to appeal to left-leaning conservatives, Blair spoke of his

"one-nation" politics.

"We need a country in which we acknowledged an obligation collectively to ensure each citizen gets a stake in it."

"One nation politics is not some expression of sentiment, or even of justifiable concern for the less well off. It is an active politics of bringing a country together," he said.

Blair said the old means of achieving that one the left was through redistribution in the tax and benefit system.

"But in a global economy the old ways won't do," he said. He said Singapore's compulsory saving scheme, the central provident fund, was being studied by his party to see if any lessons could be learned to improve Britain's welfare system.

The CPF scheme forces workers to save 20 per cent of their income for pensions, medical care and insurance and then makes employers match the contribution. Economists have called it one of the factors in the island's success.

The savings are channelled as investment into industry and provide a constant flow of long-term money for spending on infrastructure such as telecommunications and railways.

Commerce Secy elected VP of G-77 meet

Bangladesh Commerce Secretary A H Muzazzal Karim has been elected one of the two Vice-Presidents of the official level meeting of the Asian Group of 77 of the United Nations Conference on Trade and Development (UNCTAD) began Saturday at the Jordanian capital city of Amman, according to a report received here yesterday, reports BSS.

Besides, Syed Jamaluddin, Bangladesh Economic Minister in Geneva will chair the drafting group on Economic Cooperation among Developing Countries (ECDC), the report said.

The meeting on the inaugural day had considered organisational matters, and set up three committees to deal with different issues.

US, Japan won't qualify for Euro currency

BONN, Jan 9: Japan and the United States, the two great engine of world economy, would not pass the tests required to qualify for the single European currency, according to a German weekly, reports AFP.

But if Argentina, Taiwan or Singapore were EU members and wanted to adopt the Euro, they would make the grade, Der Spiegel said.

1995 was a year of great expectation for Bangladesh economy

IT was a year of great expectations. While neither taking off with a flying start nor crashing in a nose-dive, it wasn't exactly roses all the way for Bangladesh's economy. There certainly was no dearth of promises and pledges 'in the pipeline'. With prospective investors and potential investments flooding the scene, one would think that 1995 would see Bangladesh emerging as the tiger it aims to be. But despite all the bustle and clamour, it still struggles in the throes of growth. The general sense of ennui among entrepreneurs had cleared and investments were all revving to go, but in tangible terms, foreign investment was pathetically low. The global air climate was stringent. Politically, Bangladesh was a volatile boiling pot. Law and order was at an ebb. All these bottle necks, a combination of cause and effect, prevented a strong macro-economic foundation to fall into place, which, in turn, crippled micro-economic activities to flourish. The year had failed to fulfill the people's economic aspirations.

Gradual deterioration of the much-vaunted macro-economic stability was a daunting event of Bangladesh's economy in 1995. This deterioration was manifest in the country's inflationary pressure, decline in foreign reserves, increased bank interest rates, increasing current account deficits and liquidity crises. Inflation, which went below 2 per cent at one stage last year, is rising and now running at around 8 per cent. Foreign reserves dwindled to 2.5 billion US dollars from 3.2 billion less than six months. Current account deficit is increasing,

threatening the budgetary balance.

The business community in particular, are attributing the situation basically to persisting political instability. The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), has categorically blamed the political crisis for the deterioration. On the other side of the coin, however, the Metropolitan Chamber of Commerce and Industry (MCCI), has a brighter outlook. Contrary to general concern about the macro-economic deterioration, a recent review of MCCI stated: "Macro-economic fundamentals continue to remain under some pressures, though those pressures are yet to cause any chain impact... Indeed, there can hardly be any justifiable fear to pull the alarm chain."

The alarm may be unjustified, as yet, but the concern is there. Throughout 1995, the government has tried hard to project the period as one of increasing foreign investment and of a boom in commerce and industry. The visits of prospective investors, trade delegations and interested entrepreneurs from abroad have been many and have been encouraging. In January, 1995 an international conference on investment, sponsored by Eurromoney, was held in Dhaka. In February, a dialogue on Indo-Bangladesh Economic Relations was arranged jointly in New Delhi by the Delhi-based Centre for Policy Dialogue and the Dhaka-based Centre for Policy Dialogue. Sri Lankan President Kumaratunga, visiting Bangladesh in March, committed to greater trade and economic cooperation between the two countries.

Possibilities of joint ventures were discussed with Myanmar. Economic cooperation was explored even with Vietnam. In September South Korean investors visited the country to explore the investment climate. An important British delegation visited Bangladesh in November, looking into prospects in power generation, leather, construction and other sectors. Interestingly, to a great extent, hartals of the opposition political parties coincided with the visits of these delegations. Perhaps Jane Ray, Deputy Director of Eurromoney, had the situation in a nutshell: "Bangladesh has potential to become an economic tiger but a lot of things need to be done to realise the potentials."

Reforms, which constitute a large part of the things which need to be done, seem to be the bane and boon of the government. Overlooking political implications and consequences, donors dictate reforms with gay abandon, wielding these as arm-twisting conditionalities to aid. In January the World Bank cancelled its Second Industrial Sector Adjustment Credit Programme for Bangladesh because the government failed to fulfill its conditionalities, causing a loss of US \$ 50 million in aid. This sent out warning signals to other donors about the government's capacity or willingness to implement economic reform programmes. Also early in the year, as a run-up to the Paris Aid Consortium meet, the local consultative aid group met to review Bangladesh's economic situation. The donors expressed dissatisfaction over the slow pace of economic reforms. But at a meeting in March

with local officials of WB, government officials disputed the donors' misgivings, stating that reforms were very much 'on track'. Finance Minister Saifur Rahman, prior and during the Aid-Club meet, reassured donors of Bangladesh's total commitment to reforms. In its April report on Global Economic Prospects and Developing Countries, WB stated that reforms in Bangladesh would be eased if political tensions lessen. All this led up to the much-awaited Bangladesh Aid Group meeting in Paris where Bangladesh had asked for US \$ 1.85 billion. Donors pledged US \$ 1.9 billion, a drop from previous year.

Inefficient project implementation was another thorn in the flesh. UNDP cut development funding to 75 per cent of its allocative estimate under the ongoing fifth country programme which ran from July 1991 to June 1995. The cut was made due to the dismal level of the government's execution of UNDP-funded projects. ADP utilisation during the first five months was much below the targeted level, due to the government's political preoccupation. Perhaps this induced the government to reduce the number of projects in the Annual Development Programme for 1995-96, emphasising qualitative rather than quantitative expansion. The number of projects undertaken for the 1995-96 fiscal was 1085 as against the 1095 of 1994-95, though allocations increased by 8.5 per cent from Tk. 111.50 billion to Tk. 121 billion.

With political problems, donor dictation and a host of other pressures on the gov-

ernment's back, this year's budget of Tk. 247.07 billion, as proposed by Finance Minister Saifur Rahman, was passed, with a few amendments, on June 29. Forty five per cent of the expenditure outlay was meant for development purposes and 40 per cent for revenue expenditure. Keeping the coming general election in view, the government made no significant increases in taxation.

The ups and downs in the economy had the country's central bank, Bangladesh Bank, on its toes. With a rise in inflation prior to the general election creating panic in the government, Bangladesh Bank abruptly intervened in the money market to withdraw excess liquidity. Bank rate was increased by 0.40 per cent to 6 per cent, lowest rate of interest on savings deposits pushed up to 5 per cent from 4.5 per cent and Taka was devalued by 1.62 per cent. Foreign exchange reserves fell by 12.5 per cent to US \$ 2.8 billion.

High food prices played a role in triggering the inflationary pressure. Food prices remained under pressure last when standing crops of 1.5 million hectares of land were washed away in August. Credit expansion further aggravated inflation when it went up by Tk. 16,700 million during July-October 1995 compared to a decline by Tk. 9,120 million in the same period of the previous year.

Commercial banks faced grave liquidity crisis. Experts blame the banks for mismanaging assets and liabilities, lending money without assessing future requirements of cash. There was a drive of long-term lending

without long-term deposits. But developments in October faced bankers with tough laws to put their houses in order. The laws declared that directors of any bank would not only lose their directorships for non-fulfillment of financial obligations including payment of loans, but will also lose their shares. In its last session, the parliament passed a package of amendments to the Bank Company Act 1991 empowering the bank management to adjust the directors' personal liabilities against his shares.

On a more positive note, export earnings during the July-September 1995 rose by about 13.5 per cent about the corresponding quarter of the last fiscal. Import registered a 35 per cent growth during the period. Tax revenue collection during July-November period totalled Tk 4250 crore, showing more than 11 per cent increase over the same period of last year. Average index of industrial production during July-October 1995 increased by 6.6 per cent compared to 4.8 during the same period of the registered 672 projects with an investment outlay of Tk. 63,686 billion during July-November. The amount is a record 350 per cent increase over the last year. There was also a record VAT collection, amounting to Tk. 1,503 crore from June to November, 1995.

The garment industry was hard hit by the political instability. Hartals and strikes held up production, and manufacturers failed to meet deadlines. In an effort to boost garment exports, the government amended the import policy order and relaxed the rate of minimum value addition for readymade

garments. The controversial garment industry related child-labour issue initiated in the US created a lot of hulla-balloo but did not significantly affect the industry.

Mine construction began on the country's first hard rock mine project at Maddyapara with cooperation of the North Korean government. Work on the Barapukuria Coal Mine project remained held up. The much talked about multi-million dollar Karnaphuli Fertiliser Company, KAFCO, which is also the biggest foreign investment in Bangladesh, started export in January, with its first consignment of 12,000 tons of liquid ammonia being exported to the US. But in the very same month production was closed down due to mechanical troubles. The project has not been able to live up to expectations. Despite handsome gas subsidies by the government, repeated mechanical disruptions have turned the potentially prosperous project into a poor one. Similarly, the 210 MW Rauzan Thermal Power Station at Chittagong shut down 55 times it total due to technical difficulties. Repeated repairs have failed to remedy the plant. Despite this, the government has gone ahead for a second unit.

With the increasing demand for power supply in the country, the government is encouraging private investment in the sector. In April two MOUs were signed with two US companies for setting up power plants at a cost of Tk. 22 billion. And, in what would be the single biggest investment of any form in Bangladesh, top private entrepreneurs from Bangladesh and Iran entered into an agreement in October to set

up a second oil refinery in Bangladesh, with a potential of bringing in US \$ 1 billion. Donors too have made commitments in the energy sector. In September, multilateral donors committed over US \$ 700 million in fresh loans to Bangladesh's power sector, with conditionalities of handing over certain functions to the private sector.

Another highlight in the energy sector was the announcement of the first national energy policy of Bangladesh in September, aiming at provision of energy for sustainable economic growth. The policy would be needed to undertake systematic survey, exploration and exploitation of energy resources in the country.

Meanwhile, at the end of the year, the South Asian Preferential Trade Arrangement (SAFTA) loomed up as a beacon of hope. Launched on December 7 as an endeavour to boost inter-regional trade, countries of the region have placed a lot of hope on the body to bolster their respective economies. Many view this as more of a political than economic move, with India to gain more than the other member countries. But, if SAFTA is implemented as planned, Bangladesh will certainly stand to gain. Further regional cooperation, SAARC countries also endorse the concept of a South Asian Free Trade Area (SAFTA), for harmonised economic development of the region. The outcome of such moves cannot be foretold so early in conception, but they are indisputably being made in the right direction. Expectations are great.

(Prepared by Probe news agency)