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'Present upsurge in share price not sustainable'

By Inam Ahmed and Rafiq Hasan

After a prolonged mad spree of price spiralling of scrips, the last week for the Dhaka Stock Exchange (DSE) ended Thursday in a panic mood as investors feared a massive correction around the corner.

The DSE price index also dipped for the second consecutive day, Thursday, by 47 points after the previous day's 20-point loss putting the question in the mind, "has the bull stumbled, finally?"

The investors, mostly new and inexperienced in portfolio investment, felt jittery when the Securities and Exchange Commission (SEC) launched a campaign warning investors about risks involved in speculative buying and kerb market operation, and imposed a "circuit breaker" on share trading.

Imtiyaz Hossain, Chairman of DSE, ruled out any chance of "crash" in the market as the circuit breaker system would control both fall and rise in prices of shares.

Economists and market operators feel that the market will stabilise at a lower level after shedding some more points, but at what level is still difficult to predict.

"It will all depend on the confidence of the investors," said a market operator at the DSE yesterday.

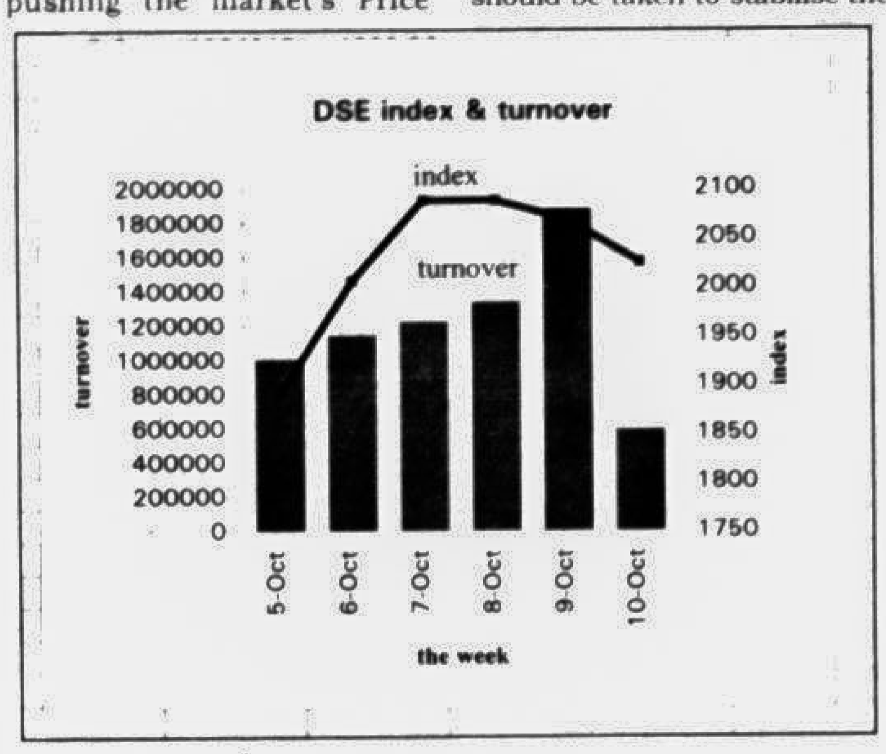
But the recent phenomenon of the bull run has raised questions in the minds of the investors and market regulators about how much this trend could be attributed to the classical theory of too much money chasing after too few scrips, and to price manipulation otherwise dubbed as syndicated trading by some market intermediaries.

DSE Chairman Imtiyaz Hossain puts the reason behind the surge in index on the flow of funds in excess of the number of scrips in the market.

But sources at the SEC and DSE indicated that there had also been heavy price manipulations in case of some scrips in which the unsuspecting investors became victims.

The SEC, sensing manipulations, had tried to investigate a number of cases, but these proved to be ineffective, said sources.

The market has already become very expensive, as market players and experts indicated, pushing the market's Price



Earning Ratio (PER) as high as 35 times.

"Right now the market is over bought and in our opinion, the present price will not be sustained by the corporate earnings in the next year," said Rizwan Bin Farouq, Managing Director of First Capital Securities Ltd. "Even a PER of 25 times is expensive for an emerging market."

The DSE price index jumped by 238.16 points during the last week to 2024.43 points along with an increase of Taka 1666.26 crore in market capitalization.

Out of 107 average traded issues, 62 gained and 42 suffered losses while 2 remained unchanged.

As many as 11.95 lakh shares and debentures valued more than Tk 28.72 crore exchanged hands during the six-day hectic business.

Commenting on the market, Dr Wahiduddin Mahmud, professor of Economics Department of the Dhaka University and former adviser of the interim government said, "A continuation of the present upsurge in share prices is neither sustainable nor desirable. Steps should be taken to stabilise the market and avoid a price collapse that is bound to damage the newly found public confidence in share market investment."

"The prices of most shares are already too high in relation to their earning yield. This irrational price upsurge is fuelled by uninformed speculation as large numbers of ordinary investors are crowding into the market," he pointed out.

Dr Mahmud said these small investors have had no previous experience in portfolio investment and are liable to fall prey to the machination of the unscrupulous market intermidiaries.

To make things worse, the big market operators are able to manipulate share prices to their advantage because of the deficiency and weak enforcement of security laws, he added.

"However, it is the ordinary small investors who ultimately stand to loose from such price manipulation," he observed.

The authorities should strengthen their surveillances of the share market, he felt.

In Dr Mahmud's view the present bullish trend in the stock market can hardly be taken as a sign of improved performance and higher profitability of the corporate sector.

"What is happening now is a purely financial phenomenon of diversion of large amount of fund to the stock markets leading to artificial share price escalation and huge windfall profit for some investors," he pointed out.

If more public issues, IPOs would be made available at this moment, this fund could be used in productive investment and better supply demand balance would also be achieved in the share market, he felt.

So far, this had not happened due to sluggish growth in corporate sector investment, he said.

The authorities should expedite the process of IPOs that are on the pipeline, Dr Mahmud said.

Meanwhile, the government may also consider off-loading the stocks it holds in different companies which will serve the purpose of both privatisation and stock market stabilisation, he felt.

Meanwhile, Imtiyaz Hossain felt the circuit breaker system would breed more manipulation and corruption in the share trading as this may result in underhand dealings.

But, Prof Abu Ahmed, a teacher of the Dhaka University's Economics Department and President of Bangladesh Share Investors Forum, said circuit breaker is a common weapon to control sudden surge or fall in share prices.

He said the market had been abnormally inflated through manipulation and syndicate trading by a group of share brokers.

He felt reform in trading system along with introduction of computerisation and central depository system are required immediately to bring transparency in the market.

'ASEAN's closer economic ties doesn't mean closed trade bloc'

JAKARTA, Oct 11: Dato Ajit Singh, Secretary-General of the Association of South-East Asian Nations (ASEAN), said here that the group's greater economic integration would not lead to the creation of a closed trading bloc, reports Xinhua.

In this age of strong economic competition, member states are conscious of the need to continuously expand their economic activities, Singh told a seminar on "Latin America and the Caribbean, Economic Outlook and Opportunities" on Wednesday, official sources at the seminar said yesterday.

Thus, the ASEAN may have no alternative but to move beyond closer economic cooperation toward greater economic integration, he noted.

However, he assured the participants that such an integration would not evolve into a "fortress ASEAN" or a closed trading bloc.

"What is certain at this stage is that even as the ASEAN moves closer together, it remains committed to the principle of open regionalism," he added.

"The ASEAN is ready to form cross linkages with other regional trading arrangements in order to facilitate trade and reduce non-tariff barriers," the Secretary-General said.

Formed in 1967, the ASEAN comprises Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam and is expected to admit the three remaining countries in Southeast Asia — Cambodia, Laos and Myanmar — within the next year.

Tata goes reorganisation to avoid foreign take-over

BOMBAY, Oct 11 : India's largest business, the Tata Group, is to reorganize itself to ward off possible international take over bids as India's economy opens up to foreign competition, a newspaper reported here Thursday, reports AFP.

Ratan Tata, chief of the Tata business house, told the Economic Times : "We are vulnerable today and have to protect ourselves. I would not say that a takeover threat is there, but I think we would be living in a fool's paradise if we said that the possibility did not exist."

The Tata business empire, set up in 1868, is managed by two holding companies, Tata Sons and Tata Industries. Both are unlisted firms, holding controlling stakes in all the group firms.

The business last month announced a private rights issue which Ratan Tata said would strengthen the group's cross holdings and tighten up the management.

"If we claim the right to manage something, then we should have a meaningful stake," he said. "Tata Sons had to raise money for future activities, which is primarily for investing on group companies and strengthening our group in general.

"Secondly, we are creating strategic cross holdings so that we do not become easy takeover targets."

Tata said Indian pro-market economic reforms, begun in July 1991.

Labour disputes increase in China

BEIJING, Oct 11: The number of labour disputes in China has increased sharply, mainly in collectives and foreign enterprises, the China Daily reported today, says AFP.

In 1995 the courts dealt with 28,285 individual complaints, a sharp rise from the 10,000-a-year average before a labour law came into effect in January 1995, the newspaper said.

Labour arbitration departments handled 23,000 disputes in 1995, up 73 per cent from a year earlier, it said.

Labour Minster Li Boyong was quoted as saying that the sharp rise in labour disputes was due to foreign-funded companies, private firms and township enterprises that infringed workers' rights.

The newspaper reported a 30 per cent increase in disputes from state-owned companies between 1992 and 1993. But it said disputes in collective companies rose 700 per cent in the same period and those in foreign firms soared 600 per cent.

Brazil may tighten child labour laws

BRASILIA, Oct 11: President Fernando Henrique Cardoso announced Thursday that he will send Congress a proposal to amend Brazil's constitution to tighten child labour laws, reports AP.

Cardoso's proposal would prohibit employers from giving evening shifts to youths under 18 or jobs in conditions considered "dangerous or unhealthy."

Although Brazilian law prohibits the employing of children under 14 years of age, there are about 3 million working children in the country, according to government estimates.

Employers get around the law by hiring children between 12 and 14 to work as "apprentices." These apprentices are often paid less than adults and do the same work as adult employees.

But in his address to 200 child labourers who formed part of a delegation of the National Confederation of Rural Workers, Cardoso cautioned that legislation alone would not be enough to stop child labour abuses.

"We have to fight the exploitation of children and adolescents... this requires a change in our mentalities," Cardoso said.

Participatory approach towards employment generation stressed

Speakers at a seminar in the city yesterday emphasised on participatory approach towards development and employment generation for alleviating poverty, particularly from the country's rural areas, reports UNB.

The seminar on "Participatory Development and Employment" at the VIP lounge of Jatiya Press Club, was jointly organised by Development Organisation of the Rural Poor (DORP) and Bangladesh Garments Sramik Federation (BGSF).

Addressing the seminar as chief guest, State Minister for Labour and Manpower M A Mannan said a specific policy and planning is needed to make the manpower workable.

"Development can be achieved through proper utilisation of the vast human resources and manpower," he said adding that some 10 lakh educated youths were still unemployed in the country.

The state minister stressed the need for an active and accountable local government to help the people in income generation and poverty-alleviation.

Development is being hampered due to the absence of a specific structure of local government, he said.

Speaking as special guest, A M A H Siddiqui, Director of the Bangkok-based ILO/PEP, said local level initiative was the most important factor that can help reduce rural poverty.

Income generation is an essential element of poverty alleviation, he said adding that the people should be properly guided so that they can raise their income level.

Member of Local Government Commission Quazi Azher Ali said that a development-oriented local government system is required to enable the local bodies to function in a coordinated way.

He suggested that a large percentage of the national development programmes and the annual budget should be given to the local government bodies for their success.

Ali further said elected representatives at the grassroots level should look after different socio-economic programmes like health, mass education, agriculture and NGO activities.

Presided over by DORP secretary general A H M Nouman, the seminar was addressed, among others, by JICA expert Satoshi Sasaki and Dr Ronald Lucradie, a Dutch development expert.

The DORP has undertaken a five-year pilot project for rural development through effective local government in 20 thanas of 13 districts and the Dhaka City.

Organisers of the project sought cooperation from the government and helpful partnership with donor agencies to implement the project, expected to be completed by the year 2002.

'Crash programme to meet power shortfall taken up'

State Minister for Local Government Rural Development and Cooperatives Alhaj Syed Abul Hossain said here Thursday that the government had taken up a crash programme to meet the shortfall of electricity and to achieve autarky in power generation, reports BSS.

To this end, four more power generation plants at different places will be installed to generate an additional quantity of 1100 megawatt of power he said and added power generation in the private sector is also being encouraged.

He was speaking as the chief guest at the certificate giving ceremony of the training course on commissioning of electrical installation, organised by the Engineers Institution, Bangladesh.

Alhaj Syed Abul Hossain said the government attached top priority to power generation to facilitate foreign investment and to meet the ever increasing domestic demand. He regretted that during the tenure of the previous government the power sector remained neglected.

The State Minister urged the engineers for innovation of appropriate technology to help alleviate poverty through building infrastructure rapidly.

The function was also addressed by the President of the Engineers' Institution Dr M Anwarul Azim.

'Poor man's bank' in Egypt

CAIRO, Oct 11: A non-governmental Arab organisation is planning to set up a "poor man's bank" in Egypt to help the under-privileged improve their lot, the Egyptian news agency MENA reported on Wednesday," says AFP.

"The Arab Council for Childhood and Development has started creating a bank for the poor in Egypt which will give interest-free loans to help this segment of society improve their living conditions," MENA said.

The council has already earmarked one million pounds (340,000 dollars) to the bank's fund in line with a request from its Chairman, Saudi Prince Talal Ibn Abdel Aziz Al Saud, a brother of King Fahd, MENA said.

Local Egyptian banks and businessmen have also pledged to help get the bank operating, the agency added.

Zillur at seminar on China-Bangla ties

Attractive environment for investment created

LGRD and Cooperatives Minister Zillur Rahman Thursday said the recent visit of Prime Minister Sheikh Hasina to China had added a new dimension to the relations between the two countries particularly in the fields of trade and investment, reports BSS.

Inaugurating a seminar on the prospects of economic relations between China and Bangladesh, the minister said with the installation of the new government as well as restoration of political stability an attractive environment for foreign investment has been created in Bangladesh.

Bangladesh-China Cultural, Economic and Mass Communication Centre (BCCEMCC) organised the seminar which was also addressed by Akhtar Hamid Siddiqui MP, KM Obaidur Rahman MP, Chinese Ambassador in Dhaka Zhang Xu Jiang, BCCEMCC President Engineer FR Siddique and representatives of different Chinese business enterprises.

Rahman informed the prospective Chinese investors that the government has recently passed a bill in parliament to set up EPZ in private sector to facilitate and attract foreign investors.

He urged the Chinese investors to avail the facilities. The Chinese representatives at the seminar said their country is interested to expand investment in Bangladesh particularly in the fields of agriculture and development of trade and rural infrastructure.

The three-day third meeting of European Union (EU)-Bangladesh working group ended at the conference room of the Economic Relations Division in the city on Thursday. ERD Joint Secretary Abu Saleh and Erich Muller, Director-General of Foreign Economic Relations of EU Head Office led their respective delegations at the meeting.

Uruguay round: Its impact on Bangladesh, other LDCs

By Dr M Zahid Hossain

Trade in textiles and clothing has been subject to special restrictions imposed by the main importers, for protecting their own domestic industries from 'market disruption' by lower cost suppliers from the developing countries. As a result, the Multi Fibre Arrangement (MFA) came into existence in 1974, under which around 50 per cent of textiles and clothing trade came to be regulated through bilateral quotas. This managed trade has however, been a major derogation from the GATT principle of non-discrimination.

Under the agreement on textiles and clothing, the MFA quotas would be eliminated in phases over a 10-year period. This would follow the schedule shown below:

Schedule	Total import value of 1990 calculated by H.S. codes
On 1 January 1995	16 per cent
On 1 January 1998	17 per cent
On 1 January 2002	18 per cent
On 1 January 2005	49 per cent

In the intervening period the remaining quotas would be expanded in the following manner:

First 3 years	Quota will grow by 16 per cent
Next 4 years	Quota will grow by 25 per cent
Next 3 years	Quota will grow by 27 per cent

It is well known that a sizable garments industry has developed in Bangladesh over the past 15 years in response to the MFA. Garments exports from Bangladesh to North America face MFA quota. But there are no such quotas for Bangladesh in the European Union (EU) although quota is applicable to garments exports from other countries to the EU. Exports of garments accounted for 64 per cent of total exports in 1994-95. Thus, the Agreement on Textiles and Clothing (ATC) will have important impact on Bangldesh's overall export performance.

An examination of the schedule of quota elimination shows that bulk of the quota would be eliminated towards the end of the 10 year period. In addition, the growth of the quota during the intervening period would mean that Bangladesh's market share into North America would increase progressively up to the year 2005.

As there is no quota for Bangladesh's garments exports to the EU, the gradual elimination and growth of MFA quota will mean that the market share in EU of other countries may increase leading to a corresponding shrinkage of Bangladesh's share in EU market up to the year 2005.

Overall, Bangladesh's exports of garments are however expected to increase up to 2005. For the period beyond, the price of garments in the importing countries would decline with the removal of quota leading to increase in demand. This will probably reduce per unit price received by the exporters as there will be no quota rents, but the market will widen although there will be more competition. Bangladesh will thus have to maintain its price competitiveness by containing the costs of production and enhance its supply capacity especially through developing backward linkages if its has to maintain its exports of garments at high levels.

Conducive environment will have to be created for producing fabrics and other materials used in the garments industry at reasonably low costs because, in the absence of the MFA quota, it would not be cost effective to compete with other producers if Bangladesh has to rely on imported fabrics and other materials. Since Bangladesh has virtually the lowest unit labour costs (wages expressed in dollars and productivity) in garments among the South Asian countries, it does not seem to be a difficult proposition if a supportive policy environment is available to the Bangladeshi garments exporters.

New Areas:

The UR has extended the agreements to include new issues such as trade in services (GATS), trade related investment measures (TRIMs) and trade related aspects of intellectual property rights (TRIPs). The important factors that have generated the demand for GATT disciplines in these areas are: internationalisation of economic activities, linkage of domestic policies and global competitiveness, rapid increase in foreign direct investment and the globalization of services.

General Agreement on Trade in Services (GATS):

GATS provides for a set of multilateral rules for the conduct of trade in services like banking, insurance, telecommunications, tourism, transportation, hotel, restaurant, cinema, television etc. GATS in fact seeks to expand market access for trade in the above and other services. Trade in services could be provided by setting up commercial presence in the host country, by temporarily moving in natural persons into the host country for providing services, through cross border supply or by moving consumers to the country of the supplier. The national treatment rule (non-discrimination between local and foreign service renderers) and the MFN (non-discrimination between two trading partners) will apply in case of GATS for all signatories.

Trade in services has grown very fast over the last decade. Thus the share of services in global trade grew from 17 per cent in 1980 to 22 per cent in 1992. In case of Bangladesh, however, trade in services relative to total the decreased in the recent years.

It is important to make specific commitments on market access in respect of GATS. According to a study on GATS, Bangladesh has made specific commitments in respect of 4 out of 620 possible commitments.

The number of commitments made by Bangladesh is 0.7 per cent of total possible commitments compared with 21 per cent by India and 17 per cent by Pakistan. Since opening up of the service sector under GATS seems to be potentially beneficial to the domestic service export sector, Bangladesh could examine the possibility of greater liberalisation of its service sector with a view to enhancing its service capacity and improving efficiency and competitiveness in the provision of services.

Trade Related Investment Measures (TRIMs):

The agreement on TRIMs relates to the avoidance of trade restrictive or distorting effects of investment measures. It aims at facilitating investment across international frontiers for increasing economic growth of all trading partners. The TRIMs are regarded as a form of protection that artificially reduces imports, encourages inefficient domestic production and thus adversely affects the balance of payments of the countries of the potential investors. Examples of such TRIMs are local content requirement, trade balancing requirement and export performance requirement. The developing countries quite often employ stringent foreign investment restrictions mainly on development grounds. The TRIMs agreement was therefore of vital concern to them.

Under the TRIMs agreement no member can impose any measures which is inconsistent with the provisions of Article III (national treatment) or Article XI (elimination of QRs). Thus, a member country shall not make any discrimination between a local and a foreign company i.e. between local and foreign capital. The foreign investors will not be under any compulsion to buy raw materials from local sources. There will also be no QRs on the import of raw materials from other countries by them and this shall not be related to their levels of exports. In addition, the foreign investors will be under no obligation to employ local nationals and they can remit the entire amount of profits after tax. The ownership of foreign companies may also be fully controlled by them.

As an LDC, Bangladesh will have a moratorium of 7 years with regard to the application of TRIMs compared with 5 years for the developing and 2 years for the developed countries. Like other LDCs, Bangladesh will enjoy certain exemptions from the application of national treatment and elimination of QRs specified in the previous paragraph. These would include the imposition of trade restrictions for balance of payment purposes or for the protection of infant industries. However Bangladesh has already introduced a series of measures for liberalizing foreign investment.

Trade Related Aspects of Intellectual Property Rights (TRIPs):

The agreement on TRIPs relates to the establishment of rules for protecting patents, trade marks, copyright, geographical indicators, industrial designs, trade secrets and lay out designs of integrated circuits. The UR put in place new regulations and disciplines in the GATT for setting higher standard of protection of intellectual property rights by underscoring the link between trade measures and the enforcement of these rights.

It has long been argued by the holders of these rights that because of the absence of effective and adequate protection, they are losing huge amounts of money in terms of foregone income i.e., the balance of payments positions of their countries would improve considerably if they received their due fees, royalties and charges on the use of their intellectual properties in other countries and also if the import of the right protected products into other countries were not reduced because of right piracies in these countries. The agreement on TRIPs also covers importation of counterfeit trade mark or copy right pirated goods.

The TRIPs will provide protection to intellectual properties in the following way:

Patent: Protection of both product and process patents will be extended to 20 years from the date of filing. The patent holder will thus reserve the rights to the use of patented process or product, for that long a period.

Copyright: Items like computer software and books would be protected under the copyright law. The producers of sound recordings and films will receive protection under the rental rights.

Trade Marks: These will be protected up to 7 years. The protection will be renewable after every 7 years at the option of the holder of rights.

Industrial Design: Protection will be available up to 10 years.

Geographical Indicators: Protection of goods against misleading origin will be available.

Trade Sectors: Misappropriation and unauthorised use of trade secrets would be protected.

Impact of the changes under the TRIPs may be unfavourable to Bangladesh. Since, on balance, Bangladesh is an important of technology and knowledge based products, it will have to pay higher prices for the protected products. The effects may be particularly pronounced in case of medicines, agricultural seeds, insecticides, computer software etc. As at present we do not have the right to any knowledge based product or process, there is no way we cold derive rents on their uses by others. In order to be able to do so, it would be essential to invest heavily on R&D activities in the country.

As an LDC, Bangladesh has 10 years moratorium on the application of TRIPs. The developing countries will have 5 years to give effect to the TRIPs. The national treatment (non-discrimination between a local and foreign rights) and MFN provisions (treatment extended to one trading partner to be extended to all other trading partners) shall however be implemented by January 1,1996.

[The writer is an Additional Commissioner of Customs and presently working on line as a consultant to the Ministry of Finance]

(To be continued)