The Baily Star

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Trade Horizon

It makes robust economic sense that the seven North Eastern Indian states and Bangladesh have decided to cooperate energetically in trade and investment taking full advantage of their complementarities reinforced by two factors: geographical proximity and the sheer immensity of untraversed potential. The process of exploring the inter-penetrability of the two markets began in earnest last September when a 30-member Bangladesh trade delegation visited Meghalaya and Assam. In a return visit, a 40-member Indian trade delegation from the Federation of Industries of North Eastern Region (FINER), led by its president H S Kumbhal, has been interacting lately with Bangladesh government and Chamber Leaders in a result-oriented fashion. Both sides have already signed a Memorandum of Understanding to facilitate expansion of trade and economic cooperation by exchange of trade, market and economic information and local assistance provided to each other's representatives in matters relating to trade development. Apart from promoting products in the two markets, businessmen of the two countries are to exchange visits by trade and industrial missions to chart out a course for joint ventures. Speaking of industrial collaboration, an accord for two joint venture cement plants, one at Rajshahi or Sylhet in Bangladesh and the other in Meghalaya has already set the ball rolling.

Bangladesh's immediate concern is to balance her unequal trade with India. Our export to the N-E region constituting only 2.8 per cent of our total export to India, a vast scope exists there for selling a wide range of our consumer products at prices cheaper than what those Indian states have to pay now in procuring them from the Indian market. The seven sisters in India could provide a market for us in agro-and-mineral based products like coal, limestone, granite, horticulture items, et al. The list for joint venture projects with buy-back arrangements can be quite long: light manufacturing industries, fruit-processing units and backward linkage industries. Hydel power sharing could be of enormous importance to us.

As we zero in on the thrust areas of cooperation, the terms of trade need to be softened for Bangladesh. The concessionary tariffs announced by India would be really helpful to Bangladesh if the requirement of 40 per cent local value addition were relaxed. Furthermore, the non-tariff safeguards render our exportables uncompetitive in the Indian market. We urge India to look into these.

Foolproof Driving Licence

In the continuing intractable mess of the city's traffic jams and frequent road accidents in the country, the quality of drivers must have a large share. This was suspected by many but could not be confirmed without relevant proofs. But now the police, on the basis of facts gleaned from accidents, have come to the conclusion that drivers with fake licences are responsible for the high incidence of such road tragedies. When the police finding is so conclusive, it is quite baffling why a serious attempt was not made to stop the fraudulent practice.

A report carried in this newspaper yesterday claimed that the Bangladesh Road Transport Authority (BRTA) moved some way ahead towards making the driving licences foolproof. Its idea was to introduce computerised data-based plastic driving licences with holographic image of the driver. A proposal submitted by the BRTA in this regard has been lying with the finance ministry for the past three years. The ministry has not approved the proposal on technical grounds.

We understand that there can be reasons — technical or otherwise - why some proposals have to be stalled at times. But when the issue is so vital and concerns the tragic side of our traffic system and also acts as a potential incentive to corruption, we fail to understand why a decision hasn't yet been reached on the proposal. If there was need for further review or modification the ministry could very well have asked for it rather than dragging foot on it. We must not presume that the technical problems are insurmountable. What we notice is a lack of seriousness to judge the matter according to its merit. We suggest that the BRTA s proposal be immediately brought under scrutiny and if there is any scope for its improvement let it be done its early approval. We want to see genuine drivers at the wheel of vehicles.

Drive against Shibir

Rajshahi University that was showing every sign of becoming yet another unchallenged Shibir bastion is looking up. The police who were being blamed till the other day for playing the role of a silent spectator have moved into action. Till Monday as many as 40 Islami Chhatra Shibir activists, including their general secretary, were arrested. The impression is that the police means business this time. For the first time we are given to understand that the country's administration does not allow an anti-liberation and savage student organisation to establish its nefarious stranglehold on a high seat of learning in defiance of the existing rules and laws.

This is a refreshing move. The Shibir goons who wanted to bring all university activities to a halt by foul means seem to be on the run. This shows that if the government is firm and wants to stop the rise of fundamentalist militancy in society, particularly in educational institutions, it can accomplish the job creditably. Earlier we noticed a lack of will on the part of successive governments. Now that the government has made its intention clear, the police have received the right signal. Their incapacity often stems from administrative passiveness or a deliberate decision not to meddle in such issues.

We hope the government will go for a sustained drive against a student front that seeks to thrive on campus terrorisation.

Seven Per Cent Growth Rate — Is It Sustainable?

Only during the current year (1996-97) it is going to surpass the 5 per cent limit. Now to achieve an additional

seven per cent growth rate of the economy during the next five years would mean a 40 per cent increase of the GDP (gross domestic product) and near doubling of the national income in another five years. The changes are going to be dramatic; in spite of the population growth which any way is slowing down. However, is the 7 per cent

growth rate sustainable?

In the current year, GDP is projected to grow by 5.7 per cent. This is primarily due to unprecedented performance of crop agriculture. According to various estimates, agriculture sector grew by 6 to as much as 9 per cent. Bumper aman crop followed by equally unprecedented boro and wheat harvests largely explain, not only growth in agriculture but the entire GDP growth of 5.7 per cent. The manufacturing sector did not enjoy such glorious performance. Although detailed figures are not yet known, the conclusions drawn above is likely to be borne out by empirical evidence.

It would be difficult, if not impossible, to sustain high growth of GDP based on rapid expansion of agriculture production. Bumper crops were induced by good weather. Bad weather could equally result in crop disaster. Growth should primarily originate in the manufacturing sector and in an open economy, export-led expansion of manufacturing should explain the growth of

During the first half of the decade of 1990s, GDP growth rates were recorded at less than 5 per cent. Only during the cur-

Lessons from E Asia: Per-

2 per cent in each of the next five years is not an impossible task. rent year (1996-97), it is going to surpass the 5 per cent limit.

Now to achieve an additional 2 per cent in each of the next five years is not an impossible task East Asian economies had in the past achieved double digit growth rates for successive years. It all depends on how we overcome the stubborn difficulties faced by the banking system, mobilise savings, maintain exchange rate stability and promote investments from abroad.

The design of the strategy of development is the key to 7 per cent growth. While the actual investment would largely originate within the private sector, the critical inducements are mostly of public origin determining success or failure of the growth initiatives. First, the growth potentials of specific manufacturing industries should be identified followed by detailed programme to increase productivity. We must not confine our attention to horizontal expansion of investment and employment in specific manufacturing categories. Increasing labour as well as investment efficiency are of critical importance. For this purpose, technical and management advisory services are essential.

The entrepreneurs of our country rush to machinery suppliers whose intentions are to sell as much as possible and not efficient running of plants and equipment. In case of bank loans, entrepreneurs try to minimise the true import cost through purchase of second

hand, often low grade and outdated machinery while overinvoicing the cargo - skimming off bank money as a net personal gain. The consequence in both the cases is disastrous. The suburbs of Dhaka are dotted with these types of ventures of failure.

What is lacking is access to information — both technical and managerial. Most of our manufacturers are first-timers,

from investments already made and enhance the efficiency of investments planned for the future.

cent per annum.

have gone up sky high in Dhaka

city area, driving the low to

middle income group out of the

market. Opening up more space

and providing access to roads,

water and other utilities would

lower the cost of land and en-

able low-cost housing to flour-

ish through construction of

high-rise apartment blocks. At

present, only luxury apart-

ments are being built and their

prices often exceed taka 2,000

per square feet. We need small

flats of 650 to 1200 square feet,

sold at taka 500-600 per square

foot. I reckon that at least half

a million such flats can be sold

in Dhaka city alone over the

next five years and it would not

only provide housing to the

needy but contribute to the

growth of the gross domestic

product. Its multiplier effect in

terms of the growth of indus-

tries devoted to various con-

struction materials and em-

ployment would also be signifi-

cant. The suggested housing

project would involve govern-

ment for land development and

provision of water, sewerage,

electricity and gas supplies;

while private sector real estate

developers will be responsible

for actual design and construc-

tion of residential buildings.

The recently-established BRAC

Housing Bank as well as House

Building Finance Corporation

and also other banks may form

I had previously suggested setting up of a factory development company responsible for the civil construction component of investment in manufacturing. Leasing companies are also helpful in bringing down the capital costs. The most important issue is how to avoid



Window on Asia

Shahed Latif

graduating from pure trading ventures to manufacturing enterprises. They need solid support and technical assistance in terms of factory design, what to import, how to run a factory, control inventory and manage and train workers. In fact, the need for bank loans are of secondary importance since banks providing loans often do not possess the requisite information in order to adequately process the loan applications with due diligence. The investment advisory services set up separately for textile including ready-made garments, leather and shoes, toys, plastic products and other labour-intensive export-oriented industries can

assist in increasing outputs

the spurious investors, who like bad money drive the genuine entrepreneurs out of circula-

Although export manufacturing is going to be the leading sector, other domestic dimensions of investment and growth should be kept in view. Both public and private investment in energy, telecommunications, road, transport and ports are necessary to create the required infrastructure without which the much sought after manufacturing growth can never be realised. On the other hand, it is not only the induced growth but the major infrastructure investments would themselves contribute substantially to the desired growth target of 7 per

the consortium for financing the venture. Beginning in Dhaka, such housing programmes can be replicated in other urban areas of the coun-Another area of considerable growth potential is the housing sector, in particular, urban low and middle class housing. Land prices in Dhaka

The sustainability of 7 per cent growth cannot be fully assured at this stage. Total world trade at the moment is growing at a sluggish rate which creates a problem for the export of manufacturing. However, through rapid development of backward linkages to RMG, investment and growth opportunities are significant which should be explored to the fullest possible extent. Another approach to obviate the sluggish export demand may be to boost domestic markets and proper price support at the farm gate level for paddy in particular will be transformed into additional demand for numerous goods and services produced at home.

In the 1950s, per capita income of the people in our part of the world was higher than Korea as well as most other countries of South-east Asia. In many other respect, we were ahead of those countries. However there was one very important difference. The literacy rate was lower in our case. Further, we failed to substantially raise the literacy level while other Asian countries achieved universal literacy by 1970s at the latest. Unfortunately, we are still largely an illiterate nation. This is the biggest drawback to development that we face today. We will fail to ever achieve the ASEAN standard of living or growth performance so long we are not educated and therefore remain ignorant of the world beyond.

Crossroads of Development: Some Loud Thoughts

by Firdous Murshid

At the end of the day, the fundamental problem has nothing to do with public or private ownership but with the structure of incentives. It is much more important to get the incentive structure right than just prices!

haps the most important thing to learn from the East Asian experience is that generalisations are difficult. Altogether much too much energy has been expended on the pursuit of discovering the miracle recipe that will lead to development. The bad news is that there is no recipe, or alternatively, the paths taken by the Asian tigers have been far from unique. This reminds us of the Gandhian principle of jato math toto path. I have little doubt that future generations will regard the attempt of the 80s and 90s to reduce the problem of development to a simple-minded recipe, in which trade liberalisation and structural adjustment are the principal ingredients, sprinkled with concerns for environment, women, child labour, governance and poverty alleviation, with much amusement it not contempt.

There is considerable awareness now that the paths taken, for example by Japan and Korea are very different from that taken by Singapore and Taiwan or Thailand and Malaysia. The more recent experience of China and Vietnam - countries that have sustained high growth rates over a number of years - lends and additional dimension to the development debate, suggesting that high growth rates are indeed possible even in a commandtype economy. Thus, the wide range of development experience that is now available suggests that each country has solved he problem of growth in its own way. While undoubtedly some underlying similarities may be identified, it would seem that the contrasts far outweigh the similarities. Thus while efforts to learn from others is indeed praiseworthy, this should not be taken to mean that we ape this or that country in a simpleminded, unimaginative manner. For, one thing, the lessons to be learnt are not as obvious as some would have us believe. We have, after all, been 'learning' from Great Britain the West, the Harvard Advisory Group, and more recently, the World Bank and the IMF, without having much to show for it at the end the day.

Foreign Investment: It is now part of the development or-

thodoxy that foreign investment is the only practical way for economies like Bangladesh to pick up speed. The fact of the matter is, however, that precious little foreign investments have in fact been forthcoming. Why? In terms of political stability, we are no worse off than many in the region (please recall the political time-bombs in Indonesia and Burma, the potential turbulence of Cambodia and the authoritarian regimes elsewhere in the region that have barely put the lid on domestic political dissent, e.g. Korea, Indonesia, Malaysia and Thailand). We will have to live with a certain amount of political dissent, but I believe that the days of hartals and strikes have been firmly left behind. There is far too much at stake for everyone to seriously support such extreme forms of political protest. The east Asians have learnt this lesson well. They have decided guite early on that whatever their political differences or squabbles are, they will not cut off their noses to spite their faces. During the one year that I have lived in Cambodia, I have seen quite a lot of political unrest and tensions, but these never ever meant shutting the whole country down. The message that I am trying to put across is that Bangladesh is stable enough for foreigners to do business here. If they are still not coming, we must look for the answer elsewhere. The lesson for politicians is, squabble if you must, but for heavens sake, be mature enough to understand that unless Bangladesh can get onto the growth band wagon quickly, it will soon be by-passed. So, whatever happens, leave the economy alone!

So where else should we look for reasons of non-investment? Try checking out what we have that is worth plundering. Any timber? Not much left. Any other extractive resources? Minerals or gems? Not really -OK so there is some gas, and surprise! surprise! the only

significant bit of foreign investment to literally hit our shores has been in the oil-gas exploration sector. Let me further illustrate the point about plunder by referring to the Cambodian experience. There has been a surge of FDI in Cambodia in the last two years, perhaps as much as 6 billion dollars. This is a lot of money given a country of 10 million people. Much of this investment has been in timber extraction and related activities. Many companies have bought up vast tracts of land at throw-away prices - despite the fact that the validity of these transactions could one day be challenged. The sellers in most cases are politicians and generals who have simply taken possession of state lands and disposed of them as they saw fit - and well below their true worth. The other type of foreign investment that is noteworthy in Cambodia is in the tourism and entertainment sector. The tourism potential here is high and there is a rush to invest in night clubs and discotheques, which in turn is related to the emergence of Cambodia as a centre for laundering drug money. In other words, the criminals from all over the world have found a haven in Cambodia, where bureaucrats can be easily bought off, where banking regulations are lax and where one can literally get away with murder, where the climate is hospitable and where entertainment is cheap. Inevitably, this has attracted a certain type of investors — those who tend to fly by night! Fortunately (for once), there is little incentive in Bangladesh for this kind of foreign investment. There is nothing to go ga-ga about FDI without reference to who, what and

Who, What, When: If you have a bit of surplus in your pocket, where would you invest it? An apartment? Land? The stock market? Or would you perhaps consider investing in Wall Street? The answer very much depends on your knowledge (about profits, risk) of these investment opportunities and on your disposition towards risk. Most people prefer to put their money where they can control it, where risks are low and where profits are high. But perhaps the most important determinant of investment behaviour is information. Why do people tend to imitate success, e.g investments in garments or textiles? Because there is readily available information about these sectors. In other words, ultimately it's all about knowhow. It is easier to build on success than to create an entirely new investment opportunity. This is why people tend to concentrate on things that they are familiar with. Therefore, the first people who should be investing in Bangladesh are the Bangladeshis — they know Bangladesh best. And this is precisely what has happened. The tremendous growth of garments and textiles is a case in point. Others who should be following suit are overseas Bangladeshis and Indians people who know the area well and who are likely to have existing business-economic links with Bangladeshis. In theory they also be the bearers of new technology, management and information. The theory is yet to be translated into practice. By the same logic of ever-enlarging concentric circles, regional investors should also be close on our heels, especially from East Asia. While some beginnings have been made by the Koreans, the field remains largely deserted. The point nevertheless remains valid: we should be concentrating on strategies that will bring in investment from these groups first. It this is not happening, we need to understand why not.

Should we worry at all about the sectoral disposition of foreign investment? There is nothing that can or should be done directly. However, it is possible, at the margin, to structure incentives in a manner that will promote certain types of in-

vestments rather than others. This is the really tricky bit and so potentially full of hazards. As far as domestic investments are concerned, especially when it comes to credit financing of projects, there is not much of a choice. The government, more specifically the banks and financial houses, will have to identify priority areas of investment. As far as I know, this has been done either implicitly or in a haphazard manner. This thus brings us to a rather fundamental point. Where should we be headed? I don't think it would be very meaningful at this point in time to commission a study on A 20/20 Vision for Bangladesh. Unlike the Chinese, I dislike slogans and rhetoric. But we do need to sit down and think through the alternatives. I don't believe that semi-academic references to comparative and competitive advantage is going to get us very far. Often a nation's comparative advantage cannot be ascertained until it is self-evident. The Korean Pony or the Malaysian Proton are good examples of this. I will try to come back to this point in my next

article. **SOEs:** What is the nature of the problem here? The budgetary implications are obvious enough. The economy cannot sustain such magnitude of losses every year. What are the alternatives? Outright sale is only one of the available options. There are however, others, and these do deserve some attention. All SOEs do not suffer from the same malady. Some are white elephants, and should be liquidated. Others are not currently viable but could be made viable if the management and labour problems are (allowed to be) solved. Yet others are currently breaking even or making some money. Their performance could be further

improved. It should also be realised that there may be problems that are external to the industry (market demand, price of inputs or fuel, power cuts) that cause losses, even in the best run enterprise. These again should be viewed differently. In other words, I believe only a sub-set of SOEs should be disposed off outright. For the others, innovations like awarding of management contracts to local or foreign firms should have been seriously considered. Public sale of shares and sale to employees and workers are other options. Let us not forget that the growth engines in China and Vietnam are centred on SOE-foreign joint ventures.

At the end of the day, the

fundamental problem has nothing to do with public or private ownership but with the structure of incentives. It is much more important to get the incentive structure right than just prices! My real fear is that in the rush to privatise, we may well end up handing over highly under-valued public assets to the same coterie of bank defaulters-bureaucrats' wivespoliticians (often the same person wearing different hats) who will merely partake of the windfall gains. If we are really interested in genuine private sector growth, let us first identify ways and means to stop rent-seeking behaviour. It is time to acknowledge, for example, that the open tender bid in Bangladesh does not serve the purpose that it is used for. This is a subject that is well worth serious scrutiny. Can we not devise a better mechanism to ensure fairness and transparency? If we remember that the ultimate objective is to obtain the best price, this objective can be fulfilled in different ways. The open tender is open only to abuse and collusion. In an electronic age, this mode as currently practiced, reeks of primitive origins.

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Passengar? Well ...?

Sir, In Bangladesh, spelling of words does not seem to be of any importance. Look at the innumerable signboards, you will see innumerable mistakes as if wrong spelling does not

It you visit the airport, you will see the word "PASSENGAR" very boldly written over the entrance to the departure lounge of the airport. I have been seeing this board for the last few months but no one in the Civil Aviation Authority seem to have felt the necessity of correcting this.

Some time back at an office the clerk wrote my name incorrectly. When I protested he educated my saying spelling of names does not matter. How would you feel if your name was wrongly spelled?

P G Muhammad 20. New Eskaton Road, Dhaka 1000

Kabila

Sir. The leadership of Democratic Republic of Congo ignores the writing on the wall as this civil commotion and strife shall eventually engulf the vast country and the lack of proper communication will make it impossible for the central government to exert its authority. The tribal system of the social order shall eventually lead to the dismemberment of the entire state. The broad masses may have found in Kabila a messiah or the saviour, but his

wrong policy is leading him to

misguided direction. Kabila faces a challenge to forge to certain extent a figment of unity and for that a broadbased national government is a must to run the country. Instead of trying to unify the different ethnic groups in the country and legitimise his government by paving the way for a broadbased national government to include the "internal opposition" which kept the forces of opposition alive during the Mobutu regime, this conflict with the local leadership is a wrong policy as most of his troops is tribal in nature and content. The forces opposed to Kabila shall manipulate the internal dissension and chaos to make the nascent Republic a hot bed of internal strife and

It is a wrong policy to try to suppress popular personalities as this suppression leads to mass upsurge which is very difficult to contain.

commotion.

It is very difficult to understand the internal situation but it is certain that he is not on right track and is moving towards absolute power to run the country through decrees. The Zairians in no time shall find that the liberator has turned into a tyrannical dictator as is the trend in most of the African countries. The extermination of the Hutu tribes is still very much an issue involving the human rights and so the government in Kinshasa must conform to the dogmatic values of African social system, other-

wise fiasco of Patrice Lumumba-type might follow in its

Al-Haj S M Khalid Chowdhury Dhaka

Justice and equity

Investment Corporation of Bangladesh (ICB) is presently deducting income tax at source @ 10 per cent on dividend income exceeding Tk. 10,000 declared each year. This is creating certain anomalies which goes against the principle of justice and equity.

Firstly, income tax @ 10 per cent is already deducted at source by different companies in which the unit funds are invested by ICB. So, income tax is being deducted at source on dividend once by different companies allowing dividend and again by ICB while the latter declares dividend annually. This is simply a case of "double taxation" which is sheer injus-

tice. Secondly, deduction of income tax at source @10 per cent by ICB from those who are not assessees at all (their total dividend income does not exceed Tk. 30,000 annually which is income tax-free) is totally illogical and without any reason. Although there is provision of refund by the taxation authority of income tax so deducted at source, it is well nigh impossible to get such cash refund from

the taxation authority easily. Will the 'Board of Revenue' kindly look into the aforesaid

two problems and take necessary action immediately so that the aforesaid two anomalies are removed before the ensuing

A. M. Shamsuddin 224, East Kafrul, Dhaka-1206

Number 242526

Sir, I have a telephone at my residence for almost 35 years though its number underwent changes on a number of occasions. But for well over 10 years, the number has been

242526. The other night, a gentleman telephoned at this number and wanted his sister by a certain name. When I told the caller that there was no one by such name at the number, he enquired whether the telephone was at Demra. When I told him that my telephone was at Wari, he insisted that the telephone could not be there, as 242526 was the number of the telephone of his sister. I requested the caller to let me have his sister's address so that I could check up with authorities concerned, but he would not let me

have it. Would the Telephone and Telecommunications Department please check whether a second line has been installed with my number?

Quazi Ariffur Rahman 7/1 Hare Street Wari, Dhaka-1203.

OPINION Electricity Rates

I refer to the front page news of 'The Daily Star' published on 7.5.97: Electricity rates up by 5% from March 1 It was most shocking to note

that instead of checking the too

harsh load shedding and improving the service to ease the inconvenience of the people, the government (democratic) has done rather an undemocratic act by increasing the electricity rates and that too for the second time in around six months' time. Earlier people faced physical inconveniences like sheer interrupted supply of electricity, gas and even water. Earlier the problems were there but now the degree of inconveniences has gone to almost unbearable height as the summer heat is increasing. Further from the news it appeared that the raise was done due to pressure of the Asian Development Bank authorities. It is incredible to think how can an independent state or its administration be dictated by an organisation outside it? It is simply humiliating. This reminds me of a story of one of the late prime minister of the then Pakistan. On "foreign aid" he had strong reservation and perhaps considered "the aid" to be something as dangerous as "AIDS", a deadly disease relatively of recent origin. He was reported to have said that "it was better to have died of hunger than to go for foreign aid." In a way he was correct. Firstly because it is humiliating and secondly the debt liability assumes such a height that not only the existing men and women in a coun-

try bear the debt burden but

even a new born baby is also entangled in the vicious circle of debt liability. Moreover, according to expert opinion, the net gain accrued from the "aid" stands to around 10 per cent only. Thus we see that with or without aid, the miseries of the common people are there. That being so, the option becomes more transparent ie the people should be prepared to share a bit more miseries over the present ones and go without aid and thereby save themselves and their generations from humiliation and the cures of

debt burden. The above is just a small suggestion for a big thing. The option is that of the parliamentarians to decide whether to review the aid policy or tow the lines their predecessors followed. Here I am concerned with small thing what the government can do in the interest of the people. As the supply position of electricity has not only deteriorated but it has gone to a record low, hence there is little justification in raising the tariff. Further, the raise in electricity rates will have a chain adverse re-action in other sectors leading to more inflation which will multiply the miseries of the people Hence it is strongly suggested that raise in the electricity rates should be reviewed in the interest of the people and the

I say government because, the helter-skelter raise twice in about six months' time is too harsh which may affect the pro-people image of govern-