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Four-point formula to salvage the country's lone newsprint mill

KNM, at crossroads, wait for buyers

As the Khulna Newsprint Mill is smarting from huge stockpile because of almost-no-sale, authorities here proposed a four-point package deal to salvage it from ruination, reports UNB.

Bangladesh Chemical Industries Corporation, which runs the country's lone newsprint mill, sent a letter to the Industries Ministry last week proposing the package and awaited an early reply.

A senior official of the state-run BCIC, who spoke on condition of anonymity, told UNB that the four-point package could be the last effort to save the newsprint mill now burdened with a huge 6200 tons of stockpile.

"With no working capital in hand to run day-to-day operation, including payment of salaries of the mill employees and workers, the KNM management is totally depending on the Corporation funds.

"Frankly, the newsprint mill is inching towards an inevitable ruination everyday ... situation is so bad there that the management may have to close the mill anytime as labour unrest is brewing," the official said.

In its first proposal, the BCIC urged the government to evolve a mechanism so the newspaper industry takes 50 per cent of their total newsprint requirements from the Khulna Newsprint Mills.

It called for imposing a 30 per cent duty in order to restrict the free import and channeling Tk 51 crore to meet the expenditure for the first phase of balancing, modernisation, rehabilitation and expansion (BMRE) and immediate cash requirement of the mill.

Finally, the Corporation suggested enhancement of the ceiling of cash credit with Sonali Bank for the newsprint mill to Tk 20 crore from the present Tk 10 crore to end the scarcity of working capital.

"We are at a crossroads. The government should immediately decide whether it would keep the newsprint mill or close it down. This is the right time to choose an option," said another BCIC official.

Disclosing the BCIC's salvage plan, the senior official said the newsprint mills could not be made commercially viable unless the newspaper industry takes any newsprint from the unit which served them once.

Established in 1959 just on the outskirts of the Sundarbans, the newsprint-mill is facing an acute shortage of working capital as it failed to generate any substantial revenue from domestic sales or exports.

The mill management had to borrow from banks to pay salaries. But when that was not continued due to the Tk 10 crore cash-credit limit, they had to seek funds from the Corporation.

The BCIC so far has given Tk 46 crore to meet the mill's day-to-day capital need, but now is unable to continue to give money as its own sources are drying up due to losses in fertilizer and other products.

"We ourselves are running short of money. We have no surplus to meet the requirement of the newsprint mill further," said the senior BCIC official.

The main problem of the mill, having an annual production capacity of 48,000 metric tons, is "almost no sale" of the newsprint due to an extremely low demand from consumers, mainly the newspaper industry.

The mill managed to sell only 1,847 tons of newsprint during the current fiscal till September 9 against its target of 10,000 tons. It happened so as no newspaper is withdrawing paper from the mill.

After the newspapers had been permitted duty-free import of newsprint, the mill with its low quality output started feeling the bite of competition with quality paper coming from other countries.

Demands dropped abruptly as almost all the national newspapers switched over to imported newsprint, pushing the newsprint mill — which at that time was failing to meet the newspapers' demand — into death throes.

Now the state-run paper unit has to incur an annual losses of Tk 36-40 crore.

Against a production cost of nearly Tk 31,000 per ton, the sale price has been fixed at Tk 19,880 per ton, a little over half the cost.

The newspaper industry's present annual requirement is about 40,000 tons. But the mill had to slash its production target to 27,000 tons last 1996-97 fiscal from 45,000 tons.

This fiscal (1997-98), the mill is ready to run at full capacity, but the authorities are planning to revise downward the target to 25,000 tons because of "no-demand".

Even with the trimmed production target, the mill will have to face another problem as there is no room in the godowns to stock the output. They are already glutted.

The BCIC authorities have succeeded in exporting 50 metric tons of newsprint to India so far during the current fiscal while commercial negotiations with importers are under way to export another 2000 tons.

If the government gives the Tk 51 crore fund for the mill's BMRE and working capital, the quality of newsprint could be enhanced, enabling the authorities to export a substantial quantity of the printing paper.

But, reminded the senior BCIC official, quality of the newsprint would not be very good because of "basic raw material constraint" as the mill uses gwea of the Sundarbans which bars getting quality paper.

When the mill has been struggling for managing its required working capital to meet the day-to-day expenditure, the workers are demanding production bonus which needs Tk 2 crore in cash.

Workers have announced a September 15 deadline for the bonus, with a threat of movement that includes work stoppage and other agitational programmes, according to official sources.

The mill has a 2472-strong manpower, including 377 casual and 1339 regular workers, 592 employees and 164 officers.

Its management has sent urgent message to the BCIC authorities seeking money for the purpose.

The workers' unrest is growing in the industrial belt of Khulna after a reported move by the Privatisation Board to disinvest the newsprint mill, along with the Khulna Hardboard Mills.

They are dead against any privatisation of the two state-owned units and planning to launch movement.

Power crisis taking toll on industrial units in Khulna

From Quazi Amanullah

KHULNA, Sept 13: Industrial units in Khulna region are facing serious setbacks arising out of power crisis.

Production in all jute mills has registered a record fall to which power crisis has contributed largely.

A BJMC source said all jute mills are virtually on the verge of closure due to fund crisis caused by fall in production.

Khulna Newsprint Mills, sugar mills, fish processing plants and other industrial units including a cement factory have miserably failed to reach their production targets.

Domestic and foreign entrepreneurs are showing little interest in setting up new industrial units in the region.

Power generating units in Khulna zone are failing to produce even one-third of the total need. Electricity being supplied from the national grid to cover the shortage is not also enough to help mills and factories continue production as usual.

PDB sources said sixty-megawatt and TG-14 power generating units are now out of order. Only 55-megawatt electricity is being generated at the 110-megawatt Goalpara power station.

According to a PDB source, it is not certain that if the proposed two barge- mounted power plants will at all be set up here to increase power production.

The sources said south-western zone of the country needs 300 megawatt electricity. Although the zone is important from the industrial point of view, the situation is quite different from what is expected.

Am-Ex chief due today

The Chairman and Chief Executive Officer of American Express Bank Ltd, John A Ward III, arrives in the capital today on a three-day visit to Bangladesh, says a press release.

He is accompanied by Lach Hough who is Managing Director and Area Head for Asia and the sub-continent based in Singapore.

During his stay, he will meet the Finance Minister, Governor of Bangladesh Bank, US Ambassador and a number of Am-Ex Bank clients.

The trip will also take him to Pakistan and India.

Ward joined American Express Company in 1996 following a 27-year career at Chase Manhattan Bank where he held several senior executive positions both in the US and overseas.

Prior to joining American Express Bank, he was Chief Executive Officer of Chase BankCard Services and an Executive Vice President of Chase Manhattan Bank.

Shantibahinimen extort Tk 400m a year from CHT people

From Nurul Alam

CHITTAGONG, Sept 13: Shantibahinimen fighting a bush war for the past two decades on Chittagong Hill Tracts raise around Tk 400 million a year from local people through extortion.

The Shantibahinimen mostly prey on business people on CHT to realise a huge sum of money every month, concerned sources said.

The business people engaged in timber and bamboo extraction from CHT's jungle-packed areas, legally or illegally, have been reportedly paying tolls to the Shantibahinimen on monthly basis.

The shopkeepers, fruit sellers, contractors, farmers and the owners of lands in CHT are forced to pay money to the Shantibahinimen.

Even some of the officials working at the interior parts of CHT are forced to pay to the Shantibahini, sources also said.

Both tribals and non-tribals have to pay the tolls to Shantibahinimen who continue their collection drive despite truce on CHT.

The Shantibahinimen reportedly come to the localities in plainclothes to raise money taking advantage of ceasefire.

Those who refuse to pay the tolls demanded by Shantibahinimen, they in most of the cases face abduction.

According to official sources, about two hundred people, both tribal and non-tribal, were abducted by Shantibahinimen during the ceasefire period that began in August, 1992.

Police and other local sources said the Shantibahinimen have also started to raise money from the farmers and landowners of the villages Dabua, Hingala, Yasinnagar and Janifathar under Raozan thana, bordering Khagrachhari and Rangamati hill districts.

Shantibahinimen also hire some local *mastans* to help them collect the money from those villagers.

But the villagers hardly complain to the law enforcing agencies fearing attack by Shantibahinimen, sources said.

Tk 95 cr Swedish grant for non-formal edn

Bangladesh will receive a Swedish grant of 150 million kroner (equivalent to approximately Taka 95 crore) for Non-formal Education Project-11 to be implemented by the Primary and Mass Education Division, an official handout said, reports BSS.

An agreement to this effect was signed Friday in the Economic Relations Division (ERD) between the governments of Bangladesh and Sweden.

The purpose of this grant is to assist Bangladesh in achieving 'education for all' by the year 2000 and eradicating illiteracy by the year 2005.

The 26th meeting of the Board of Directors of Al Baraka Bank Bangladesh Ltd was held at its head office in the city recently.

USAID projects at Savar please Inderfurth

US Assistant Secretary Karl F Inderfurth met with officials of Savar PBS No 1 to learn about the impact of USAID-sponsored rural electrification on Savar's local economy, says USIS.

PBS officials explained to Inderfurth how Savar had been primarily a forested area when their electrification project began in 1980, but the advent of electricity has now allowed them to develop one of the country's most competitive export processing zones. This project is now providing electricity to 1.6 crore people in one-quarter of Bangladesh's villages.

Inderfurth then visited a village factory operated by Micro Electronics Ltd which produces voltage stabilizers and UPS systems for export made possible by the rural electrification project.

Inderfurth also met with two micro-credit recipients who have received loans through BSCIC's USAID-assisted Women's Enterprise Development Project. Sophiya Begum, the recipient of two loans, explained to Inderfurth how she has gone from being a landless farmer to the owner of 320 chickens which generate a net daily profit of approximately Tk 125. Sophiya has now applied for a third loan seeking to expand her business to 470 chickens.

Assistant Secretary Inderfurth commented that he was impressed by this "vivid example of the entrepreneurial spirit in Bangladesh."

US Assistant Secretary of State for South Asian Affairs listening to Sophiya Begum's success story about her poultry firm at Savar on Friday. —USIS photo

Export orientation: Rhetoric and reality

By Feisal Siddiqi

By now, one has accustomed to hearing about how widespread "reforms" will establish a genuinely open market economy in which exports will be the driving force behind rapid economic growth. Exports have been instrumental in the rapid economic growth of the East Asian success stories, while more closed and regulated economies who have been less aggressive exporters (such as India), have definitely lagged behind.

What does this export orientation actually mean? Because of the relatively small (not in terms of population, but in terms of purchasing power) market in Bangladesh, investment growth based on domestic consumption and demand is not likely to go far. The impetus to investment and, hence, economic growth has to, therefore, come from rapid export expansion to large global markets. It means there should be a bias in the economy towards export promotion, so that investment will be biased towards feeding exports rather than feeding the domestic market. The reality of the prevailing economic policy is not at all consistent with the above theory on which it is supposedly based. In fact, one will argue that the existing policies are in fact not even export (or tradeables) neutral, they are in fact effectively anti-export.

By definition, it seems that export neutrality (versus a bias for the domestic market) is a situation where exports and imports are completely tax free and the clearing price which would balance inflows and outflows of foreign currency would be freely determined exchange rates. The relevant taxes would be on domestic consumption (VAT), thereby curbing consumption in favour of investment, and corporate taxes on profits, which would be either neutral between export and domestic income or, as an additional incentive to exports, lower for export income as is presently the case.

Because of the still high import taxes and quantitative restrictions on imports, imports are curbed, curbing the demand for foreign currency, thus allowing a higher level of the taka (a lower level of the dollar) to be sustained in the foreign exchange market. It may be argued that capital account restrictions, if removed, would also result in net outflows of foreign exchange, and would, therefore, result in weakening of the taka. Though this is by no means a foregone conclusion, as increased outflows may be matched or even exceeded by increased inflows.

Leaving aside the capital account for the moment, one can safely say that both imports (directly) and exports (indirectly, because of the stronger than "free-market" taka) are being curbed under the existing policies. In other words, there is an anti-export and anti-tradeable basis (and the reverse side of the coin, a pro-domestic market or non-tradeables bias) in exact contradiction of the government's stated policy of so-called export-orientation.

The favourable corporate profit tax on export income is not necessarily a strong incentive — exporting activities will enjoy a boost if these activities are profitable in the first place. Having tax benefits when there is not much profit in the first place is not much of an incentive to anyone. It is obviously more important that exporters make attractive profits and then pay the normal tax on it (after the equally liberal tax holiday period for both exporters and local market suppliers — which also one may not be in favour of for much the same reason — the investment expenditures should be made tax deductible, making investment itself a profitable activity, whether it subsequently makes any profits or not. If profits are made subsequently, they should be taxed). The conclusion, therefore, is the tax break for exports is not an optimal arrangement and does not effectively compensate for the anti-export bias built into the system.

Thus, the policy needs to move away from its existing anti-export bias and toward export (and tradeables/non-tradeables) neutrality at the very least if the government's policy pronouncements are to make any sense at all. Having achieved export neutrality, further concessions like tax-breaks and other facilities would imply genuine export-orientation. The other major problem with having relatively high import taxes and other non-tax barriers is that it then becomes very difficult to start up new export activities using any imported inputs.

An academic blasts tendency to look to India to get clues for economic policy making

The duty drawback mechanism in such cases is just a theoretical solution — it doesn't work well in practice. Therefore, import discouragement is anti-export both directly, as just explained, and indirectly through artificially raising the value of the taka and making exports more expensive, as explained earlier.

In South Asia, Sri Lanka has taken the most clear-cut and consistent policy decision. As stated by President Kumaratunga herself in Dhaka, she has put her private business sector on notice that imports taxes will be reduced to a single rate under 15 per cent for all items within the year 2000. Thus tax (tariff) anomalies will cease to exist (because of the same rate for all items) while the anti-export bias introduced by import discouragement will be considerably reduced because of the low import taxes. Even more radically, perhaps the only country in the world to do so, Mongolia has gone to completely free trade from May 1 this year (with zero import tax).

There is a tendency to look to India to gain clues to Bangladesh's economic policy making. This is a complete non-starter, because India has got a huge enough domestic market (for example, a significant middle and upper middle class with purchasing power) to provide the impetus to investment and economic growth. It need not depend on rapid export growth to stimulate its economy.

Bangladesh, on the other hand, has (rightly) come to the conclusion that export growth, rather than domestic consumption, has to be the engine which drives the economy. But having reached that conclusion and embodied it in all the rhetoric on the economy, the most obvious actions/policies needed to align the economy along the path of export orientation have not been taken. India in fact does a lot more to encourage exports, despite their being much less dependent on exports as a source of economic growth.

There is even a school of thought here that Bangladeshi exports suffer from short-run inelasticity of supply and/or face inelastic demand curves in the global markets, so that making exports more competitive through a currency devaluation would not increased the volume of exports. There is not a shred of evidence for this reasoning. Rather, with the possible exception of jute and jute goods, where Bangladesh has a significant share of the global market, all the other items face an essentially highly elastic demand schedule in the global market. Short-term elasticity of supply is also high for most of the products (exports such as frozen food and tea) while medium-term elasticity should be fairly high for all items except tea.

Real export-orientation therefore requires that the exchange rate at least be "neutral", at a value which would reflect a balance of payments equilibrium if all imports (and exports) were allowed and on a tax free basis. This value of the taka is much lower than the rate which now exists under the current system. In fact, if the aid flows bolstering the taka (the well-recognised aid induced distortion, which is relatively substantial for the Bangladesh balance of payments) were factored out, the equilibrium value of the taka would be even lower.

Similarly, since the duty drawback system does not effectively compensate exporters for the taxes paid on imported inputs, the only real solution is to lower soon import taxes to as close to zero as possible. Achieving export "neutrality" on these two fronts, without any other special incentives for exports, would itself be a big step. Introduction of further incentives beyond strict neutrality, such as tax breaks, interest rate subsidies, etc, would imply genuine export orientation.

In short, Bangladesh should firstly be talking about attaining or approximating export neutrality from a situation of anti-export bias instead of endlessly talking about export-orientation and export-led growth and doing nothing of practical significance to back up the rhetoric. As it is, exchange rate determination is currently a passive exercise, mainly geared towards containing inflation, as if that is the only objective of all economic policies of a desperately poor country like Bangladesh.

What needs to be done is that like in Sri Lanka, the government of Bangladesh has to announce that by, say 2000, a maximum tax rate of 10-15 per cent will prevail on imports to be attained by gradually reducing import taxes every year. Eventually, there is no reason why zero per cent import tax cannot be a target. It simply means that items produced locally for domestic consumption have to meet the competition from goods produced abroad and transported and marketed at some cost, just like Bangladesh's exports enter other markets and compete there (even after transport cost, unfamiliarity and taxes are overcome).

At the same time, the taka needs to be devalued to its "export-neutral" value, which would take into account the impact of the average level of existing import taxes and aid-induced distortion. Alternatively, the taka could be freely floated, keeping aid flows out of the market transactions. This "market" rate for the taka should in theory still be higher (and the dollar lower) than the genuine underlying clearing rate, since import taxes would still on average be well above zero.

In any case, it would be a start on the road to genuine export-orientation. Otherwise, Bangladesh will continue to be mired in a vicious cycle of low export growth, low investment, low economic growth, and continued poverty. How can one believe that an economy like Bangladesh can afford not to be aggressively export-oriented? All it needs is that the policies must be formulated in support of the widely-accepted rhetoric of export orientation.

A structural shift in prices throughout the economy including agricultural prices has to take place if exporters and other producers are to prosper and increase GDP growth.

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