From Two Economies to Two Societies

Part-II (Continued from yesterday)

by Rehman Sobhan

In a globalised milieu our elite can keep their commitment to Bangladesh as at best partial where the crises in our schools, universities, health care, law enforcement are either issues of academic concern or a temporary inconvenience. For them Bangladesh is just a place of business not the source of their survival. It is the ordinary people, the bottom 99 per cent who have to deal with the realities and sorrows of life ...

THE injustice and inefficiencies manifest in the neglect of our farmers is matched by the injustice in our system of credit disbursements from the banking system. Bangladesh's financial system has become famous on two counts. The first relates to the accumulated default in the repayment of debts to our commercial banks (CB) and development financial institutions (DFI). The second relates to the emergence of Bangladesh as the leading purveyor of micro-credit in the world both in terms of volume of credit and numbers of beneficiaries. This co-existence of these two phenomenon is again a manifestation of the injustice which lies at the heart of our economy.

As of 30 September 1997 the level of loans overdue to our financial institutions amounted to Tk. 12,960 crore of this Tk. 10,820 crore or 83.3% is due from private borrowers. Most of these overdues to private borrowers are concentrated amongst the top 100 defaulters. This default has contributed to the insolvency of our banking system where 34.5% of the loan portfolios of our nationalised commercial banks (NCB) are overdue. The repayment record in the private sector is no better and 35.3% of the loan portfolios of the private bankers are in the default. Our DFIs, the *Bangladesh Shilpa Bank* (BSB) and the *Bangladesh Shilpa Rin Sangstha* (BSRS) are also largely unviable with over 90% of their loans overdue. Our NCBs have had to be recapitalised twice by the government through injections of equity using the tax payers money. The private banks also need to be recapitalised. Thus in effect, ordinary depositors and tax payers have to finance the default of a small group of defaulters drawn from the elite.

This default originates in patronised access to bank credit which has become the privilege of those with power and influence. This same power permits them to borrow money without establishing the viability of their projects or indeeding risking their own money and to then default in their loans without fear of effective action to ensure the recovery of their debts. Thus the some power and influence which enabled them to borrow money in the first place enables them to persuade the bankers to condone their default, reschedule loans and eventually to have a large part of the default written off.

In the private banks access to credit is limited to those who are close to or known to the private owners. This in substantial measure ensures that a significant share of their loans are concentrated, in complete violation of banking laws, with the owners of the bank, their relations and friends. Defaults to these banks are thus defaults of owners against their own depositors and the bank itself.

This small group of defaulters has frustrated the recycling and expansion of bank credit, holds the financial system hostage and remains immune from prosecution because of their power.

In contrast to this crisis in the banking system Bangladesh's micro-credit organisations such as *Grameen Bank*, *BRAC*, *ASA* and *Proshika* have disbursed around $4 billion of credit to close to 6 million households. Most of these borrowers, whilst not being the poorest of the poor, are poor by any standards. They have proved their credit worthiness by high repayment rates of 90% and above. Too much should not be made of such micro-credit as to its ability to substantially reduce poverty or transform society. However, there is no denying the fact that these micro-credit organisations have delivered credit to the poor, improved the condition of life of many of their borrowers and above all established the poor as reliable borrowers who can be loaned money without collateral with some assurance that it will be repaid. Within an efficient and more just system than we have credit in Bangladesh should have been redirected from the elite defaulters to the creditworthy poor which would have served both justice and efficiency and helped in greater measure to alleviate poverty.

Efficiency and Injustice in the Export Sector

Injustice in the financial system is associated with the inefficiency of the system. Unfortunately our most efficient sector, the RMG industry, compromises its otherwise singular export achievement through the injustice at the heart of the industry. It should be kept in mind that Bangladesh's RMG sector, both in the area of garments and knitwear, largely imports its yarn and fabrics from abroad which is then assembled together as RMG, through the labour of 1.4 million workers. The value addition of the industry, which constitutes Bangladesh's largest foreign exchange earner, is thus largely accounted for by the concentrated labour of its workers, most of whom are young women, drawn largely from the families of the rural poor.

It must be recognised that the emergence of a garment industry in the first place is an important achievement for a new breed of small entrepreneurs who could benefit from the quota market guaranteed to Bangladesh by the *Multi-fibre Agreement* (MFA) and the free entry by Bangladesh RMG exports to the European market under the GSP system. Our RMG sector has done well to take advantage of its privileged access to these overseas markets, to establish itself in non-quota markets and improving the competitive worth of the RMG sector. Much has indeed been made of the entrepreneurial achievements of the RMG sector which has built up a new class of young entrepreneurs. It can at least be said of this class that they produce a globally competitive export product, do not default on their loans, have created employment opportunities for 1.4 million people and have helped to enhance the earning capacity of a large number of poor women and to transform their lives by bringing them out of their rural homes.

However, having paid compliments where it is due, we should observe that a more just society would have paid greater attention to the real backbone of our RMG export success story, the 1.4 million workers who actually provided the value added to this sector where 75% of the end-product is imported. Thus, whilst RMG factory owners have been handsomely rewarded those who have given them their good fortune live precarious lives of genuine hardship. When we look at the success of the RMG export sector we should direct our attention to those young girls who live in the *bastees* of *Bashabo*, four to a room, who rise at 5 a.m., compete for water from a single tap and an unsanitary toilet where it is at all available, who eat two cold *chapatis* before they set out to walk for an hour to reach their place of work by 7.30 or 8 a.m. At work these girls will work, in not always good light, for 8-10 hours - longer if overtime is involved, in poorly ventilated rooms, exposed to fire hazard, with inadequate toilet facilities or available places for rest or taking their scanty midday meal. They will spend another hour walking home, on many occasions after dark, exposed to harassment by local hoodlums and occasionally the police. For exposing themselves to such hardships these going women may earn from Taka 800-2000 a month from which they must save to send money to their families in the village and perhaps to accumulate some dowry for their marriage. The rewards for their labour earn them a quarter or a third of the 25% local value addition associated with our garment exports. The balance goes to the owners and other intermediaries.

This division of the revenues from value addition is again neither just nor efficient. More of this value addition could be returned to these women by giving them an equity share in the factory in which they work, through improving their working condition's, perhaps providing a nutritious meal and a *creche* for working mothers. A thoughtful government would have recognised the dynamic contribution of these women to our economy by enforcing existing labour laws, joining with the RMG entrepreneurs in investing in providing transport and improved housing facilities for these women, better street lighting and more police security. More effort could be made to invest in improving the educational status and work skills of these women since such investments in improving the conditions of these women and upgrading their skills would also make them more productive thereby increasing the competitiveness of our exports.

Instead we continue to live with the injustice of a system where some 1000 people can send their children to private schools and abroad and seek their health care in Singapore through income generated by the labours of poor girls who will never complete their education or even aspire to anything more than the services of a failed MBBS. This injustice does not stop at our national boundaries but takes in an international economic order where 25 cents is paid to a young girl in an RMG factory in Bangladesh to sew a shirt which is eventually retailed at JC Penneys in New York for $ 15. Under such a system whilst the wages of such young girls from Bangladesh, to Vietnam to Mauritius are being squeezed under pressure of competition, the price of the shirt in New York continues to increase. Thus domestic injustice is compounded by the injustices of the globalisation process.

Injustice in the sectors indicated above can be multiplied into every area of the economy. Such injustices originate from a malfunctioning system, where democratic accountability has deteriorated within a system where policy agendas increasingly originate from the *diktat* of Bangladesh's aid donors. As with many other aid dependent countries Bangladesh has surrendered its policy autonomy to a universalist reform programme. This externally driven reform process not only remains insensitive to the peculiarities of our society, institutions and politics but is misdirected because it failed to focus on issues of social justice and distribution of the benefits of reform. This loss of ownership over our domestic policy agendas, has weakened accountability first amongst our policymakers and eventually amongst those institutions in the system of governance involved in the implementation of policy.

Injustice and Inequality

In such a system where markets either do not function or malfunction due to the capacity of those with power and access to resources to manipulate these markets, justice emerges as the first causality. Thus, those who are honest and competent have little reason to expect that either the government or even the market will reward them. The reward systems of our society, in its present configuration, depend on access to power and influence, the capacity to manipulate the system for personal or sectoral gain and to escape from accountability either in the market place or through exposure to popular or legal institutions. Where power, access and immunity from the law are distributed very inequitably, the values of a market driven system tend to aggravate inequalities and injustice.

Those who remain without land, access to adequate education and health care, cannot expect to avail of the opportunities offered by the open market. Where access to work is a privilege which lies within the patronage of those with privileged access to knowledge and resources the system itself becomes whimsical since no competitive norms guide access to administrative decisions or economic opportunities. In such an environment those who produce outputs do so in an unprotected and uncertain environment where price behavior and foreign competition, make an already unpredictable environment even more erratic. In such a system access to capital is not based on market principles but on access and the cost of capital itself varies from person to person depending on their power to perpetuate their defaults. Law enforcement remains a hazard rather than a source of security where access to the law is determined by who you are and what you are willing to pay so that there is one law for the rich and one for the poor. Within the rich there is one law for those with political access and another for those who compete in the market for purchasing law enforcement. The system of justice at the lower levels remains negotiable and encourages contempt for the rule of law.

Such an unjust society perpetuates injustice. The malfunctioning of the system of governance encourages criminality. White collar crime of the defaulting classes condoned through either the corruption or inability of the decision makers to enforce their own decisions, percolates through the system down to petty officials at all levels of government and within the machinery of law and order. The defaults of the elite encourages officials in an NCB to seek their share of the cake thereby aggravating the malfunctioning of the banking system and increasing its cost.

Illegitimately acquired wealth and misgovernance percolates down to private crime. Defaulters in Motijheel and political leaders patronising these defaulters, finance *mastaans*, who help them to contest elections. These some *mastaans* use their political access to buy immunity from the law to extract tolls and use crime as an instrument of private enterprise. Many of these criminals graduate into politicians and eventually into elected representatives. In such a milieu crime becomes another form of entrepreneurship which perpetuates the injustices of a system where the dividing line between the law enforcer and the law breaker is becoming invisible.

Conclusion : Renegotiating Bangladesh's Social Contract

Is there any escape from this growth and perpetuation of injustice. This again depends on who you are. In a globalised system the elite seeks escape by using the foreign education of their offspring as an investment to keep them employed abroad. Their investment portfolios are also diversified into assets held abroad which remain secure both from the claims of their domestic creditors as much as the political vicissitudes of Bangladesh. In a globalised milieu our elite can thus keep their commitment to Bangladesh as at best partial where the crisis in our schools, universities, health care, law enforcement are either issues of academic concern or a temporary inconvenience. For these people Bangladesh is just a place of business not the source of their survival. It is the ordinary people, the bottom 99% who have to deal with the realities and sorrows of life in contemporary Bangladesh. It is this same community who count the costs of injustice and compute the asymmetry between their dreams and expectations from an independent Bangladesh against the realities of life here today. It is this community which expects that Bangladesh's *social contract* should be renegotiated on a more just foundation which reconciles effort with reward.

The search for answers must thus begin through a system where each citizen assumes responsibility, individually and collectively to question those in authority above them and to eventually demand accountability from their leaders. If we wait upon our leaders to voluntarily make themselves more accountable we may wait for ever. Thus the building of an accountable society becomes our personal responsibility and more so for those with some education and political consciousness.

A more accountable system may minimise the injustices of the existing system. But it will do little to moderate the injustices created by the policies and institutions which create and perpetuate such injustice. We thus need to rethink both our policy agendas and to restructure the institutions which perpetuate such injustice. Policy and allocative regimes have to be put in place which emphasise justice and inclusion so as to give a stake to the poor in Bangladesh's development process. Such an agenda would need to prioritise more equitable access to educational opportunities, health care, productive assets in the way of land, water, credit, technology so as to enable a much broader segment of the population to compete more equitably in the market place. We will need to develop a system which rewards work, skills and production rather than rent seeking intermediation. We will need to build a system which puts employment generation at the centre of our policy agendas rather than as an afterthought of our development plans. We will need to invest in upgrading the skills and productivity of our farmers, artisans, our rural industries, our garment workers. We will need to give the deprived majority an investment stake and price regime which enables them capture more of the gains from their labours and improved productivity.

We need to develop a system which directs resources and rewards to those who use this competitively whilst sanctioning those who misuse these resource and default on their fiscal and financial obligations. Above all we need to rediscover a sense of community where we not only make ourselves more accountable but we fulfil our *social contract* with the less privileged segments of society, whose labour and sacrifice have underwritten our elite status. We will accordingly have to restructure our political and development institutions to accommodate this more inclusive policy agenda where the stake of the deprived classes is institutionalised by law rather than at the whims of our policymakers.

This rediscovery of a sense of community will hopefully move Bangladesh towards a search for more indigenous solutions, where externally driven policy agendas will be superseded by policies which originate from our domestic felt needs, expressed through a more democratic consultation process articulated by our indigenous expertise and underwritten by a democratic political consensus.

Are such expectations for a more just society anything more than a dream? Can our two societies become one without experiencing the pain of social upheaval? Will those who exercise social power agree to share if not abdicate it to enable us to build a more just and democratic society? For those who believe in a more deterministic interpretation of history such an expectation lies in the realm of fantasy. To look more optimistically towards the building of a more just society thus demands an element of hope in the power of regeneration within our political culture and a belief in the sense of self-preservation of the privileged classes. Such a belief may be sustained by the recognition that those in positions of privilege will have to keep in mind that unless the poor majority are elevated from their impoverishment our economy will not be able to experience sustained growth which remains as much a matter of distribution as of production. Living with an increasingly frustrated and growing number of the poor who remain conscious of the violation of Bangladesh's *social contract* could expose our elite to a socially hazardous future. Self preservation could thus be a positive sum game. It must be said that the awareness of the need for self-preservation amongst the elite itself demands a set of circumstances where the deprived segments of society can rediscover their collective worth to strengthen their demand for accountability from their elites. The circumstances which will promote such a rediscovery remain to be explored.

In conclusion it must be stated that the emergence of two societies remains in violation of the *social contract* which has underwritten Bangladesh's struggle for liberation. Bangladesh thus owes a blood debt to those who fought for our liberation over two centuries and indeed to generations yet unborn, to honour the *social contract* to build a just and exploitation free society. It is this living reminder of our unfulfilled contractual obligations which has inspired this paper. It is this same concept of a sense of social obligation which has encouraged me retain some hope in the capacity for regeneration within a political leadership which seeks its inspirations from the liberation struggle to honour their *social contract* with the people of Bangladesh.

Concluded

INDUSTRIAL DEVELOPMENT

Investment by Transnational Corporations

by A B M S Zahur

Without strengthening the base, adoption of our strategy to pursue an export-led industrialisation for sustained economic growth will not be meaningful. Let us not hesitate to invite the appropriate types of TNCs for technology transfer, skill development and promotion of marketing know-how to improve the quality of life in all levels.

USUALLY the governments of the industrialised market economies advise the developing countries for attracting heavier investment by Transnational Corporations (TNCs) for their brighter development performance. The present government considers foreign direct investment as very important for technology transfer, skill development and promotion of marketing know-how. As Bangladesh does not have any appreciable foreign investment so far and as her interaction with transnational firms has not been adequate, it appears to be desireable for her to move forward for foreign direct investment cautiously and carefully.

The academicians, policy makers and international agencies hold different views about investment by TNCs. The academia generally level adverse criticisms for the following reasons :

(a) they are instruments of capitalist exploitation or weapons of neo-imperialism;

(b) they are interested only in preserving and exploiting the monopolistic advantages;

(c) the products they introduce into local markets are generally high-income luxuries that only local elite consumers can afford;

(d) as their production methods are highly capital intensive the demand for unskilled or semiskilled labour does not really increase. Thus no positive contribution is made to local employment except raising the demand for scarce skilled labour (local elite engineers and technicians).

(e) the modern products with mechanised methods often destroy traditional craft factories;

(f) they are perpetuators of economic inequality and inefficiency. As their growth is inherently oligopolistic such growth is incompatible with basic needs development; and

(g) their technologies are very sophisticated (because sophisticated technologies are hard to copy), thus cannot be counted on to create the types of technology that are most useful for the developing countries.

Despite severe criticisms by the academia the volume of international production carried out by TNCs rises as rapidly as ever. The policy makers of developing countries as well as international agencies have generally accepted the effectiveness of TNCs as instrument of industrialisation. Such a realisation has come because of the emergence of newer types of TNCs from a greater variety of home countries. As such types are much smaller and operate in a wider range of industrial segments (including labour intensive, light manufacturing industries) they are more suitable for labour abundant developing countries. Their investment is essentially based on a dynamic pattern of shifting comparative advantage in which the TNCs are viewed as conveyers of vital industrial knowledge.

Such investment is designed to take advantage of more suitable factor endowments overseas than at home. The success in this trade, if used in conjunction with a policy of export-led industrialisation, necessarily leads to rapid change in its factor endowment, a change characterised by a swift shift from a relative abundance of labour to its relative scarcity. As such its industrial structure must be adjusted to modern industrial sector. If adequate time for adjustment and reallocation is allowed, many inputs (labour, land, plant facilities etc.) can be transferred from the contracting to the expanding sector.

The outward-looking developing countries are eager to invite this kind of foreign investment because it leads to the development of exactly those industries in which the host country can build a comparative trade advantage. The operational modality of such firms benefits both the host and the home country. The former receives industrial transplant from which it can develop a comparative advantage. While the latter sheds industrial activities no longer appropriate for its newly emerged pattern of factor endowment. Both countries thus are able to upgrade the industrial structure.

There is yet another mode of direct foreign investment. Though such investing firms operate in high technology industries at home their overseas ventures are limited to the labour-intensive stages of production in which various parts and components are assembled. The operation requires mostly semiskilled labour. Because of the rigid requirements necessary to ensure quality controls, wholly owned operations are the usual feature of this type of venture. As they have close link with home country there is strong possibility for manipulation of transfer prices.

Yet another type of TNCs, emerging from developing countries, has attracted the attention of policy makers and academicians. These are generally localised within different regions. They have an absolute advantage in producing undifferentiated products for relatively small local markets.

The resource-extractive firms (such as mining and oil companies), located in resource-rich advanced countries have traditionally been active in the overseas extensions of their domestic operations. The behaviour of these TNCs has long been governed by microeconomic considerations in optimising production and distribution in global scale. They have sought out on the best possible resources and sold them globally at profit maximising prices. As the firms no longer can dictate terms with the developing countries they are increasingly concentrating their investment efforts in more politically stable resource-rich countries such as Canada and Australia.

Newer types of investment are coming from the resource-scarce more recently industrialised countries (notably Japan and Germany). They are now eager to secure their own supply bases by means of direct investments. The newcomers' investments are prompted all the more by the recent decline in the geocentric type of transnationals.

There is ample evidence that on the whole TNCs have played a positive role in facilitating the industrialisation of developing countries. However, proper assessment needs detailed studies on each host country. The net contribution of foreign direct investment to the overall capital formation of the host countries is very small.

The immediate and pressing requirements for alleviating poverty, increasing employment and nutritional opportunities are the central policy elements. Surplus generation by the agricultural sector to be used for industrial expansion to cover imports for investment and consumption, may, effectively, do far more to further enhance the living standards of the already better-off sections of the population of a country than for its poor.

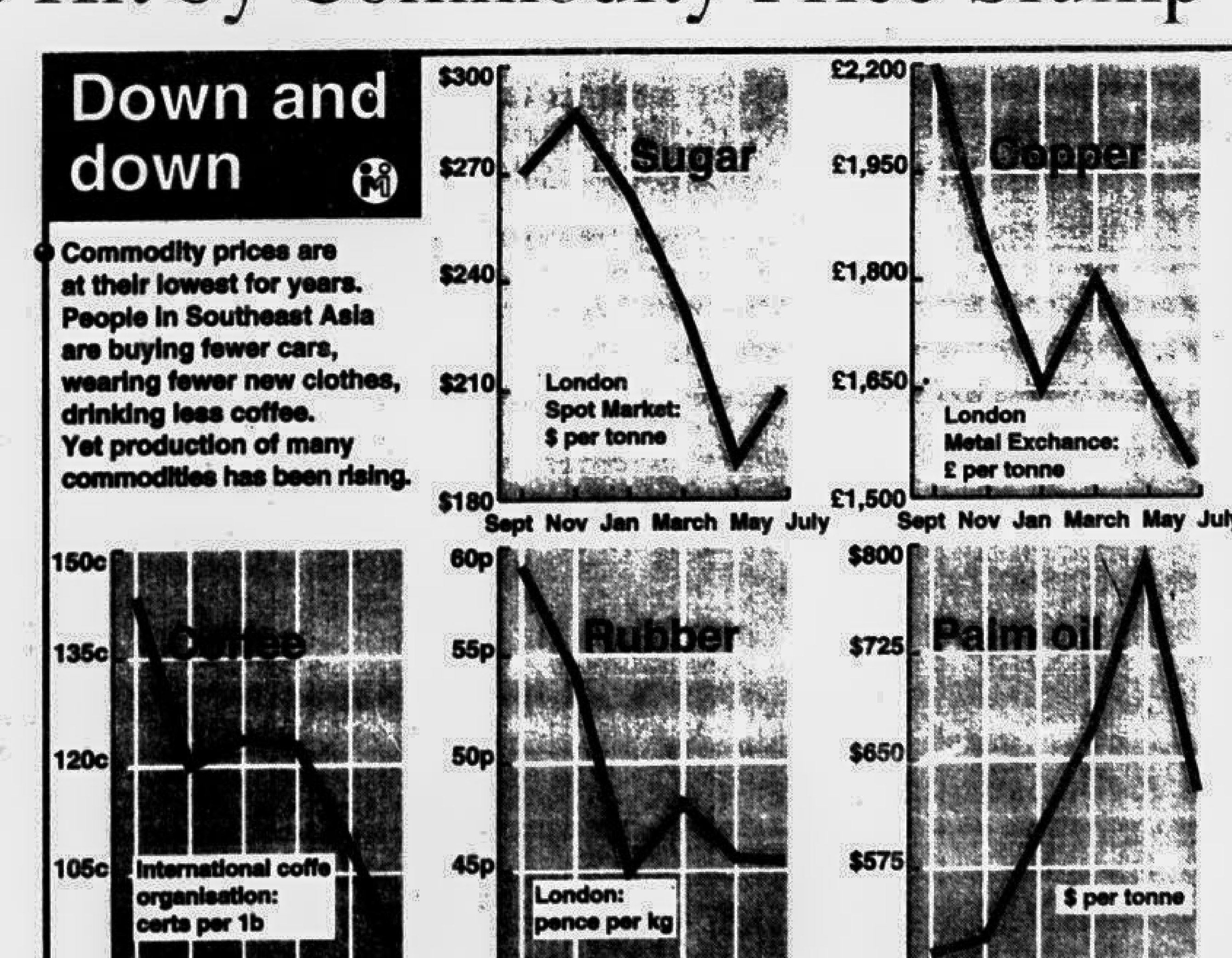
The economic influence of direct investments by TNCs in the production of an access to nutritional opportunities is insignificant so far as the rural poor are concerned. The organisational and social nexus of the village economy is not only outside the spectrum of multinational business interests but also outside the capacity of such firms to confront it. Their output impact on multinational requirements might be negative. The employment generating effects are marginal in overall national employment levels. The TNCs investment cannot satisfy the consumption requirements of the rural or urban poor. It promotes consumption patterns of people in higher income brackets.

The investment by TNCs may not significantly generate employment. May be such investment will not serve the need of the urban or rural poor. It is also true that their investment will not make any significant net contribution to capital formation. Still we need it because our weak technological base needs immediate strengthening. Without strengthening the base, adoption of our strategy to pursue an export-led industrialisation for sustained economic growth will not be meaningful. Let us not hesitate to invite the appropriate types of TNCs for technology transfer, skill development and promotion of marketing know-how to improve the quality of life in all levels.

The writer is a Joint Secretary (retd), Govt of Bangladesh.

Producers Hit by Commodity Price Slump

High production and reduced demand, caused mainly by the economic crisis in Southeast Asia, have brought commodity prices down to their lowest for years. Discussion on the problems facing producers, reports **Ken Laidlaw** of *Gemini News Service* from London, will feature at the IMF World Bank and Commonwealth Finance Ministers meetings in a few weeks time.



COMMODITY prices are on the floor with little prospect of immediate improvement. Producers are suffering severely. Except for palm oil, and their commodities have seen price setbacks in the last year. Most are at their lowest prices for years and that means a sharp decline in countries' economic growth.

The slowdown in the far East has reduced demand for most commodities and helped forced the steep fall in prices. Among base metal prices, copper has been hard hit. Prices have fallen by 40 per cent in a year.

Copper sales are dependent on car sales and in Asia these have slumped. Domestic vehicles sales in Japan fell by 8.4 per cent in the past year. With no sign of a let-up in reduced demand for copper to the region the market, is expected to remain bearish throughout 1999.

The fragile copper-dependent economies of Zambia and Papua New Guinea have been stretched to the breaking point.

Soft commodities have not escaped the price fall. In addition to reduced Asian demand, adverse weather caused by the El Nino phenomenon has taken its toll. Loss leaders have been coffee and sugar.

Healthy coffee prices above 140 cents a pound last year are now firmly in the past. Most analysts predict seriously low prices through to the millenium. Now around 100 cents a pound, they are expected to fall below 90 cents before the end of the year and later even to 50 cents, where they last stood in 1992. In 1997 prices averaged just under 170 cents a pound.

Drop in consumption in Asia, combined with an estimated worldwide record crop, has led to the disappearance of bulls in the current coffee market.

Similar circumstances have hit the world sugar market. Prices have fallen by more than one-third since December when they stood at $295 a tonne. By the middle of this year they were down to just under $190 a tonne. Again, too much sugar and too few buyers.

In the last decade sugar consumption in South-east Asia had grown by four per cent a year. An accumulated surplus of more than 10 million tonnes has built up over the last four harvesting seasons.

The Asian economic crisis and its effect on world commodity prices will be discussed at the meetings of the IMF and World Bank in Washington as well as that of the Commonwealth Finance Ministers in Ottawa, Canada.

For Commonwealth tea producers, last year's bumper prices, their highest in 15 years, have been replaced by dramatic falls. When El Nino caused floods and drought to Kenya it reduced production and brought high world prices, from which India and Sri Lanka benefitted.

This year, more favourable weather in East Africa and reduced demand from South-east Asia has meant plenty of tea and significant price falls. Auction prices in Mombasa peaked at $3.70 kg in April. By late July they had fallen by 30 per cent to $2.40 kg. With high output this year, more price falls are forecast.

Whereas oversupply is behind the slump in tea prices, poor demand has led to the price fall in cotton and rubber. Again, the Asian factor has cast its shadow. Reduced incomes have led to a fall in clothing sales. Normally South-east Asia accounts for 25 per cent of world cotton imports.

A world cotton surplus has led to a price fall of more than 20 per cent from 80 cents a pound in mid-1997.

Uncertainty of demand from Asia has dampened rubber prices. A year ago they stood at 105 cents a pound. Since then they have fallen to 70 cents a pound. The London-based Economic Intelligence Unit (EIU) forecasts an average New York price of $960 a tonne in 1998, down 22 per cent on 1997 average.

However, the EIU says that a world natural rubber shortage is looming and the Asian factor in prices should not last more than three months. So far the market has been indifferent to the impending rubber shortage. Fundamentals should see prices bounce to an average $1,160 a tonne in 1999, says the EIU. The fortunes of palm oil have been much more positive. Prices have continued to rise since last September, peaking at $800 a tonne in May. This is a more than 60 per cent rise from the just under $500 a tonne a year ago.

For Malaysia, the world's largest producer and exporter of crude palm oil, this is good news. Palm oil is cheap to produce and paid for in US dollars. The Malaysian ringgitt has depreciated 30 per cent against the US dollar since the Asian crisis began last year.