The Daily Star
BUSINESS
DHAKA, THURSDAY, SEPTEMBER 16, 1999

MCCI advises two-pronged design to halt labour productivity falls

Star Business Report

The Metropolitan Chamber of Commerce and Industry (MCCI) has suggested a two-pronged strategy to arrest the falling trend in labour productivity in the country.

One of the strategies is to link wage increases with productivity. This will call for bringing an improvement in the labour-management relations, depoliticisation of the trade unions and increasing the use of collective bargaining for wage determination at the plant-level, according to a latest write-up in the Chamber News, the monthly MCCI bulletin.

The other scheme is to identify and find solutions to the problems which adversely affect labour productivity.

"Labour productivity in most of the large-scale industries in the country has been declining and in some cases, it has been negative due to trade union activities and public sector wage policies," said MCCI.

On the other hand, international comparisons show that labour productivity in the main competitor countries of Bangladesh like India, Pakistan and Sri Lanka has gone up significantly.

"Wage level in Bangladesh is among the lowest in the world, but because of wage increases, labour in the country has been losing its 'competitiveness," said the write-up.

Low productivity has offset the advantage of low labour wages, raising unit labour costs in the manufacturing sector.

"A recent study conducted for the ILO-ARTEP shows that unit labour costs have generally fallen in India, Nepal, Pakistan and Sri Lanka chiefly as a result of rising labour productivity, but have increased in Bangladesh."

A World Bank study indicates that compared to the other South Asian countries, low labour competitiveness in the manufacturing sector is mainly due to low output which reinforces the negative impact of rising wages.

"Regarding wage rates, the Bangladesh Bureau of Statistics (BBS) data show that real wage and product wage of both skilled and unskilled workers in the country's large-scale manufacturing sector have increased, and have no relevance to labour productivity or enterprise profitability.

In the major group of industries where public sector enterprises (PSEs) dominate in terms of fixed assets -- value added or employment -- such as food manufacturing, cotton, textile, jute textile, paper and paper products, petroleum refining and non-electric machinery indices of real wage and product wage exceed labour productivity indices.

A reverse situation is found in some industries where private enterprises such as beverage, wearing apparels, drugs and pharmaceuticals, rubber products, glass and glass products, and non-industrial chemicals dominate.

But there are quite a few industries where, despite the dominance of private enterprises, indices of real wage and product wage have been bigger than those for labour productivity (like leather and leather products, ginning and processing of fibres, wood and cork products, furniture and fixture, and non-metallic mineral products).

In the case of PSEs, wages are determined by the government-constituted wage commission (NWPC). Wages of workers in PSEs have been revised upward from time to time, taking into consideration changes in the cost of living, resulting in corresponding increases in similar private sector enterprises.

Although in private enterprises wages are to be determined through collective bargaining (as required by law), wage determination in actual practice is influenced by public wage policy as well as by the sector-specific minimum wage rates fixed by the government.

Wage rate trends in large-scale industries have been the outcome of the government's labour policy which have no correspondence with labour productivity trends in the sector.

Besides, the government must reduce its role in fixing wages for the public sector. In fact, the present system of wage determination through bilateral negotiations between the government and trade unions or their alliance (such as SKOP) makes it impossible to link wages to productivity.

The promotion of labour productivity should come under greater focus. Comprehensive policies to overcome the many constraints faced by the manufacturing sector need to be adopted urgently.

It is also apprehended that the government may announce a national minimum wage. In our opinion, such a move will be counterproductive. Not all sectors of the economy would have the ability to pay a national minimum wage. On the contrary, the result may be a contraction in employment due to closure of many enterprises. Moreover, because of widespread under-employment in the country and weak administrative capacity, the government is unlikely to be able to enforce minimum wage in any sector. There is, therefore, hardly any need to have a national minimum wage which cannot be implemented.

What are urgently needed for the welfare of the workers are major initiatives by the Government to improve the quality of labour. Labour is defined to include not just the gross labour but also its quality components such as education, age, sex, occupation etc. The most important, however, is the education component of labour which covers both formal education (schooling) and informal education (job training). The quality components of labour respond more directly and more quickly to economic policies than others (such as gross labour which is a function of population growth). The Government should therefore play an active role in making provision of training and re-training facilities for the workers (with the involvement of employers) as well as improving their general education level through appropriate investment in human development sectors.

Both theoretically and empirically, the most important determinant of labour productivity is the growth of capital-labour ratio. This may sound paradoxical for a labour abundant country like Bangladesh, which is committed to pursuing a labour-intensive strategy of industrialization for raising employment.

The economic reason is simple. Economic growth is the result of the rate of savings (and the resulting investment) on the one hand and the capital-output ratio on the other. For a given capital output ratio, the rate of output growth can be maximized by maximizing the rate of savings (and investment). The optimal savings rate — the one which leads to maximum output growth — can only be generated by relatively capital intensive methods of production. Labour productivity thereby rises, but with fewer workers now required to produce any given level of output, output growth results in a less than proportionate increase in employment.

Maximum output and maximum employment can thus be seen as conflicting objectives. But the paradox can be easily resolved. The creation of jobs being a dominant objective, a greater focus should be given to the promotion of labour productivity. For this, however, a complementary policy of removing factor price distortions will be required. In this country, as in many other developing countries, the reality is that a variety of structural, institutional and political factors cause the actual market price of labour to be higher than their true scarcity value. The result of these distorted factory prices is the encouragement of inappropriate technologies. From the private cost-minimizing viewpoint, the choice of capital-intensive technologies is correct, but from the point of view of the society as a whole, the social cost of under-utilization of labour can be substantial. Government policies designed to "get the prices right" (i.e., to remove factor price distortion) would contribute not only to higher productivity but also to more employment and better utilization of scarce capital resources through the adoption of more appropriate technologies. To that end, comprehensive policies to overcome the many constraints faced by the manufacturing sector ought to be adopted urgently.

Failure to settle SEC penalty claims

Court asks Orion directors to show cause against arrests

By M Shamsur Rahman

A court has issued showcause notices upon five directors of a public traded company to explain as to why they should not be arrested and put behind bars for not settling claims in connection with a certificate case filed by the Securities and Exchange Commission (SEC).

Mohammad Shafiqur Rahman, Obaidul Karim, Ibadul Karim, Major General (Rtd) Abdul Mannan Siddique and Golam Mohiuddin have been directed by the court of the General Certificate Officer to respond by today (Thursday).

Earlier on March 15 this year, the same court ordered attachment of Orion Infusion properties to realise the Tk 19.20 lakh penalty imposed on it by the regulators.

"Since the company hasn't paid the penalty, you are, therefore, directed to attach movable properties of the company until you are given further orders from the court," the attachment order said.

The court orders came in the wake of a suit field by the Securities and Exchange Commission (SEC) against Orion Infusion Ltd to recover an accrued penalty of Tk 19,20,000 slapped on it over its failure to disburse shareholders' dividends.

The SEC filed the case under the Public Demand Recovery Act with the Office of the General Certificate Officer, Dhaka, to realise the fines imposed under the Securities and Exchange Ordinance, 1969.

The company declared a cash dividend of 32 per cent and a right share against every two holdings worth Tk 100 each.

The dividends were declared on February 3, 1997 — 15 per cent for the year '95 and 17 per cent for '96.

The regulators later asked the company to come up with its compliance report as it failed to pay off shareholders within stipulated 60 days. But the company failed to come up with any 'satisfactory' answers.

The SEC then issued a notice of hearing on June 29 where the company directors committed to pay the dividends within August 15.

The SEC also fined Orion Taka one lakh on August 6 to be paid within seven days, failing which the company would also face a fine of Taka ten thousand per day.

Instead of complying with SEC directives, the company filed a Writ Petition with the High Court Division and obtained a stay order on August 12.

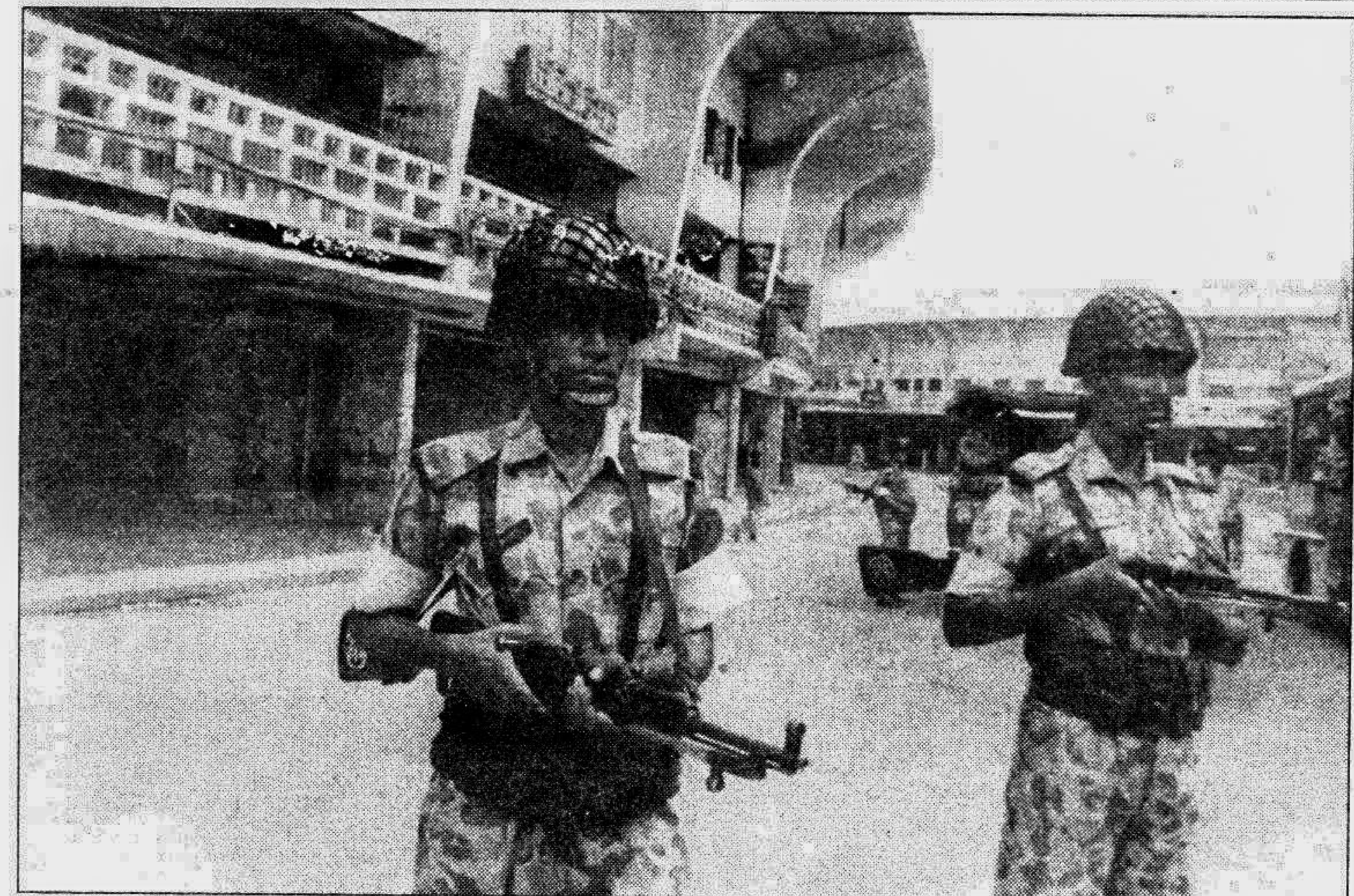
The court later vacated the order following an application by SEC.

The company later appealed before the regulators for waiving the penalty in December. The SEC board however rejected the plea.

In May last year, Orion Infusion paid Tk one lakh as penalty, urging exemption of fine.

Rejecting the plea, the SEC on June 23, 1998, filed the case with the Office of General Certificate Officer.

The company is also facing a per day fine of Taka one thousand imposed by the Dhaka Stock Exchange (DSE) for its failure to pay dividends to shareholders. It also slapped a trading suspension on the company of February 18 last year.



BDR personnel guarding the stadium market in the city during yesterday's hartal hours. However, the shopowners did not dare to open their shutters even in the presence of security forces. —Star photo by Enamul Haq

BGMEA blasts political unrest

Garments exporters miss huge overseas orders

Garments exporters missed export orders worth a few hundred crore taka as some US buyers, including Sears and AMC Vendors, cancelled their scheduled trips to Bangladesh for the three-day hartal, reports UNB.

They yesterday (Wednesday) apprised the government of the loss as well as other hurdles facing the readymade garment industry, like port and banking problems.

A delegation of the Bangladesh Garment Manufacturers and Exporters Association, led by its President Anisur Rahman Sinha, called on Dr S A Malek, political adviser to the Prime Minister and handed him a memorandum addressed to the PM, who is now on a visit to US.

The association expressed its anguish over political unrest, shutdowns and frequent deadlocks at Chittagong port.

It sought support of the government for recouping the damage done to the export industries due to political unrest, port problems and banking procedural complexities.

Dr S A Malek told the delegation that the export-oriented garment industry must be sustained on the world market at any cost.

"The government is determined to do everything for the sector," he said, expressing his concern over the damages suffered by the industry due to political unrest.

The meeting decided to keep open the ports, customs offices and banks concerned on Fridays and Saturdays for the sake of the industry, BGMEA officials said.

Prime Bank goes public

Prime Bank Limited is going to raise its paid-up capital from Tk 20 crore to Tk 40 crore by issuing 20,00000 ordinary shares of Tk 100 at par.

Out of the total public issue, 17,25,000 shares worth Tk 17.25 crore have already been subscribed by local financial institutions, investors and foreign investors under pre-IPO placement arrangement.

The rest 275,000 shares worth Tk 2.75 crore have been offered to the public for subscription within a time-frame of September 9 and 22.

The management also mentioned that the bank offered shares for public subscription for complying with the regulatory requirement of Bangladesh Bank.

Kazi Abdul Mazid, Managing Director of the banks, said that in view of the huge classified and non-performing loans in the overall banking sector in the country, PBL certainly had an enviable track record.

According to the Bangladesh Bank CAMEL rating, only two local banks have been given the 'A' category, and they are the Prime Bank Limited and the BASIC bank, the bank said in a press statement.

PBL classified debt or loan portfolio is only 1.98 per cent and the bank's bad debts are provisioned for. It has a 12 per cent capital adequacy ratio and plans to raise it to 17 per cent, the statement said quoting the MD.

For protecting the interest of the depositors, PBL has also gone for provisioning the depreciated value of shares and securities bought by the bank in 1996 and 1997. In the calendar year 1998, PBL set aside nearly Tk 20.26 crore from its operating profit of Tk 22.07 crore, bringing down the net profit to Tk 1.74 crore.

Seminar in city today

Bangalore IT show begins Nov 1

Star Business Report

TechnoVista Limited will hold a presentation and a seminar on Bangalore IT.COM '99 at 4:00 PM at the Conference Room of IDB Bhaban in the city today.

Bangalore IT.COM '99, one of the largest IT shows in the world and the biggest in India, is going to be held in the Indian IT capital Bangalore from November 1 to 5.

The organiser of the exhibition has appointed TechnoVista Limited, an authorised solution provider of IBM in Bangladesh, its exclusive representative in Bangladesh to deal with the Bangladeshi IT companies for registration with the event.

The Bangalore show is being hosted by the government of Karnataka and is being organised by the Electronics City Industries Association (ELCIA). The USA is the partner country of the show while Cyberexpo, a division of Cyber Media (India) Ltd., is the event manager.

Professor Jamilur Reza Chowdhury, former Advisor to the caretaker government and advisor, National Standing Committee on Software Export, will be present as chief guest while Anwarul Bar Chowdhury, Vice-Chairman of Export Promotion Bureau (EPB), will be present as special guest in the seminar.

Sanjoy Das Gupta, Secretary, Information Technology, Government of Karnataka, India and Pradeep Gupta, Managing Director, Cyber Media (India) Ltd. will also grace the occasion.

Some 500 organisations are expected to take part in Bangalore show, spanning over the 20,000 square meter exhibition area.

US warns Pakistan, China of potential Y2K glitches

WASHINGTON, Sept 15: The United States warned on yesterday that Pakistan and parts of China faced potential service disruptions because of the Y2K computer problem, but it was more positive about other Asian nations, including regional economic powerhouse Japan, reports Reuters.

The State Department said inland Chinese cities faced potential Y2K computer problems affecting banking, communications, medical services and power. Disruptions also were possible in Pakistan, where authorities were late in addressing the threat, it said.

In addition to Japan, countries such as South Korea, Taiwan and Singapore were in better shape, the State Department said.

The assessments were published in updated Consular Information Sheets on 196 countries and territories around the world, which for the first time included a look at the effect of Y2K, a coding glitch that could confound computers as the year 2000 turns. Unless fixed, this could disrupt everything from airlines to health care to telephones.

The brief and very general accounts were meant to provide general guidance for Americans living and travelling in foreign countries.

In China, the department said the more developed coastal cities, where the government had concentrated its efforts, were generally well prepared.

"At the present time it appears there may be a risk of potential disruption in the key sectors of banking and finance, telecommunications, medical services and in electrical power and infrastructure systems outside of the coastal areas," it said.

"Chinese authorities expect that any potential disruptions will be concentrated in small- and medium-sized enterprises, and that there is a moderate risk of potential disruption in freight-forwarding and distribution networks," it added.

In Japan, one of the world's most technologically advanced societies, the department said the government had pushed all sectors to complete testing and make contingency plans. The State Department said it appeared there was a low risk of potential disruption.

It gave a generally positive assessment of Taiwan, but added there could be problems in the medical services sector and with some water supplies.

"The medical sector is likely to be affected as many small and medium-sized facilities will not have completed their Y2K conversion and will be forced to send their patients to larger hospitals," it said.

Most large companies, utilities and financial institutions have taken steps to avoid problems, but smaller-and medium-sized concerns were at some risk, the State Department said.

The report on Pakistan said the country, although not heavily dependent on computers, was only "somewhat prepared" and there was a "significant risk" of disruption in key areas.

"Both government and private entities... came to focus on Y2K only in late 1998 or early 1999. A late start and inadequate funding to address the Y2K problem suggests that Y2K disruptions are likely," it said.

On India, the consular report said: "Though Indian firms rank among the leading providers of Y2K remediation for other countries, some Indian sectors have been slow to recognise the extent of potential Y2K problems."

Enough money had been made available for federal government organisations to cope with the challenge, the report said.

Exchange Rates

American Express Bank foreign exchange rate (indicative) against taka to clients					
Currency	Selling TT & OD	Selling BC	Buying T T Clean	Buying OD Sight Export Bill	Buying OD Transfer
US Dollar	49.7300	49.7700	49.3200	49.1570	49.0850
Pound Stg	80.1299	80.1944	78.9515	78.6905	78.5753
Deutsche Mark	26.6775	26.6990	25.7117	25.6111	25.5736
Swiss Franc	32.1794	32.2053	31.6946	31.5899	31.5436
Japanese Yen	0.4736	0.4740	0.4651	0.4635	0.4628
Dutch Guilder	23.6768	23.6958	22.8195	22.7303	22.6970
Danish Krona	6.9664	6.9721	6.8117	6.7892	6.7792
Australian $	32.9909	33.0174	31.6832	31.5785	31.5322
Belgian Franc	1.2934	1.2945	1.2466	1.2417	1.2399
Canadian $	34.0990	34.1264	33.1251	33.0156	32.9673
French Franc	7.9543	7.9607	7.6663	7.6363	7.6251
Hong Kong $	6.4168	6.4219	6.3385	6.3176	6.3083
Italian Lira	0.0269	0.0270	0.0260	0.0259	0.0258
Norway Kroner	6.2981	6.3032	6.1952	6.1747	6.1657
Singapore $	29.8141	29.8381	28.8590	28.7636	28.7215
Saudi Rial	13.2957	13.3064	13.1153	13.0719	13.0528
UAE Dirham	13.5782	13.5891	13.3916	13.3474	13.3278
Swedish Krona	5.9858	5.9906	5.9115	5.8920	5.8834
Qatari Riyal	13.6978	13.7089	13.5068	13.4621	13.4424
Kuwaiti Dinar	168.9428	169.0787	156.8403	156.3219	156.0930
Thai Baht	1.2582	1.2592	1.2453	1.2412	1.2394
Euro	52.1767	52.2187	50.2877	50.0910	50.0176

Bill buying rates

TT Doc	30 Days	60 Days	90 Days	120 Days	180 Days
49.2112	48.9090	48.4980	48.0870	47.6760	46.8540

US Dollar London Interbank Offered Rate (LIBOR)

Buying ($)	Selling ($)	Currency	1 Month	3 Months	6 Months	9 Months	12 Months
49.0850	49.7300	USD	5.38000	5.51000	5.94125	5.96000	6.04625
78.5753	80.1299	GBP	5.21719	5.46297	5.92906	6.08375	6.27375
Cash/TC	Cash/TC	Euro	2.58275	2.68875	3.11538	3.20700	3.32000

Exchange rates of some Asian currencies against US dollars

Indian Rupee	Pak Rupee	Thai Baht	Malaysian Ringgit	Indonesian Rupiah	Korean Won
43.515/43.520	51.840/51.870	39.400/39.450	3.7995/3.8005	8000/8100	1192.6/1193.2

Amex notes on Wednesday's market

The USD/BDT trading was stable in a thin market. The rates were quoted at 49.50/52 level.

Call money market was at 8:50-9.00 per cent level. The call rates fell a little as excess liquidity was injected in the market.

At around 0826 GMT, major currencies closed against USD at 104.22/104.32 JPY, 1.5482/1.5496 CHF, Euro at $1.0340/1.0345, GBP at $ 1.6069/1.6074.

Politics hold key to lasting recovery in India

NEW DELHI, Sept 15: India may have left plodding growth rates behind, but could slip back if the current elections do not return a government strong enough to pursue economic reforms with vigour, analysts said, reports Reuters.

"The key really is that the elections return a workable majority," said Mona Chhabra, an economist at DBS Securities.

"There is a broad consensus among political parties on the direction of economic reforms, but you need political strength to carry out reforms such as cutting subsidies or charging public utility consumers a cost-plus price or an exit policy for the public sector."

India's third national election since 1996 got under way on September 5 and is scheduled to end on October 4.

The two leading parties have pledged to carry forward the liberalisation programme begun eight years ago. However, analysts worry that if another fragile coalition government emerges then electoral promises could come to nothing.

ADB cautions on sustaining growth

In a report released on Tuesday, the Asian Development Bank said India will be able to achieve its economic growth target of seven per cent in both financial 1999/2000 and 2000/2001. But it warned: The sustainability of the upturn is uncertain."

"The growth impulses from the first generation of the reforms may have ebbed down and there is a danger that the economy could settle down to a lower growth trajectory of 5-6 per cent."

In other words, reformers will need to pedal harder to go at the same speed.

Finance Minister Yashwant Sinha, whose Bharatiya Janata Party (BJP) is widely expected to return to power at the head of a coalition, said on Tuesday he would pursue the reform process, opening up the insurance sector to private and foreign players.

He also told Reuters at the weekend that he favoured cutting the government's stake in all state-owned banks, other than the State Bank of India, to less than 50 per cent.

Analysts say the rigidity of the banking system remains a key hurdle to be cleared in the reform process.

Insurance a litmus test

India began its liberalisation drive in 1991 under a Congress party government, but momentum was lost in the mid-1990s with the rise and fall of a string of weak coalition governments.

Legislation to open up the insurance sector, still pending before parliament, is a case in point. Indeed, the fate of the insurance bill has been followed closely by foreign investors as a litmus test of India's commitment to economic reforms.

Analysts say rapid growth in insurance and the liberalisation of investment norms for pension funds could generate $20 billion over the next 10 years, supplying 40 per cent of the funds required to boost the nation's creaking infrastructure.

Analysts are not convinced Sinha can keep his promises.

"We have to remember that these statements are being made in election time," said Aashish Pitale, head of research at JP Morgan in Bombay. "The BJP itself is divided on insurance reforms, so we have to wait and see what happens on the reforms front."

The ADB said India's stubbornly high fiscal deficit remains a key area of concern and is likely to undermine economic growth in the long term.

"There is a clear and urgent need for fiscal consolidation to reduce interest rates, promote investment and growth, and foster reasonable stability in the financial markets and the foreign exchange markets," it said.

India's gross federal fiscal deficit hit 4.5 per cent of gross domestic product in 1998/99. But adding in the state governments' deficits and loss-making public sector units the deficit is running at over eight per cent.