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OECD sets new rules for multinationals

LONDON, Jan 1.2: The Organisation for Economic Cooperation and Development has drawn up a new code of conduct for multinational companies, the Financial Times reported today, reports Reuters.
The rules covered corporate

governance, conditions at the workplace, treatment of the environment, bribery and protection for so-called whistleblowers, the newspaper said.

It said critics of the rules say it would be hard to monitor compliance in developing coun-

It could also put companies at a competitive disadvantage against groups not based in the 29 OECD countries as well as Chile. Argentina and Brazil which also took part in the re-

"The mood among OECD countries is that the new rules have to be applied worldwide to address public concern about he activities of multination-'s," one senior OECD official

s quoted as saying. The guidelines were due to be roved at an OECD ministeneeting in June. They will e legally binding but memintries could use them as for their own law.

Top int'l financial firn is unite on set tlement

TOKYO, Ja n 12: More than

100 global fine uncial firms, including heavyw e Bank AG, are Inc and Deutsch joining hands to set up a company for internat ional securiand settleties transactions 1 today, rements, a daily saic ports AFP.

The new company, to be created in 2002, would manage data on global financh il transactions to make the fire ns conduct their securities and ing business more speedi. ly and less expensively, the N ihon Keizai Shimbun said.

Under the current systa em, when institutional investa 'rs like pension funds place buyh 1g or selling orders with securitie firms, they also need to notify the orders to trust banks that manage their assets, it said.

The transactions take some time as pension funds must report their orders to securities firms and trust banks back and forth via telephones and faxes.

French inflation rises on higher oil prices

PARIS, Jan 12: France's inflation rate rose a higher-thanexpected 0.4 per cent in December from November and while analysts said the increase was largely due to higher oil prices it could be used as a pretext to raise interest rates, reports Reuter.

The monthly increase outstripped the average forecast in a Reuters poll for a 0.2 per cent rise. It left the year-on-year inflation rate at 1.2 per cent, the highest since November 1997 when it was 1.3 per cent, and up from 0.9 per cent last month.

Economists said the headline number was likely to raise bond yields and, coming after similar German inflation price data and inexpectedly high wage demands from a powerful German union, might fan fears euro-zone rates will go up in March.

"Fundamentally there is no doinestic pressure, as the core number sall suggests, but it's coming at a bad time when there are expectations of rate rises to come" said ABN Amro economist Philippe Brossard. It will provide a good excuse for the ECB. A rate hike of 25 basis points may come at the meeting in March.

The capital market has numerous roles to play in an economy. The developing economies are looking forward to their capital markets as the engine for future growth as its presence ensures mobilisation of funds from surplus units to the ones suffering from deficits. Business firms (deficit units) need money to pay to the factors of production, i.e. land, labour, capital, and entrepreneurship. Households (surplus unit) have residual earnings, i.e. savings after their consumption but usually in less quantum compared to the business firms' needs. It is the financial intermediary that usually pools the money from a wide number of people and channels it to the

ultimate borrowers. Financial intermediaries include banks (central bank, commercial banks, investment banks etc.), Securities and Exchange Commission (SEC), specialised financial institutions, development financial institutions and institutional investors (i.e. Investment Corpo-

ration of Bangladesh). The market can be classified into a number of ways, but from the duration point of view, it is classified into two-money market and capital market. The money market is the market where financial securities maturing in less than one year are transacted while in a capital market financial assets maturing within more than a year change hands. Typical money market instruments are certificates of deposits, treasury bills, post office savings etc. Capital

Price index decline dashes gains from higher exports

By Monjur Mahmud

Exports fetched US\$ 2180.05 million during the July-November period of the current fiscal year, which is nine per cent short of the \$2390.83 million target.

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The five-month export earnings were however seven per cent higher from last fiscal's same period.

"Except for frozen foods and leather, major items including readymade garments (RMG). knitwear, jute goods, raw jute, tea, chemical products and handicrafts could not achieve their respective targets despite a higher performance when compared to last year," said an official of the Export Promotion Bureau (EPB).

In November, exports brought \$ 427.59 million against the average monthly target of \$478.17 million.

During the first five months of this fiscal, the total export volume increased by 7.21 per cent, but the price index declined by 0.23 per cent, the offi-

cial added. Industrial products performed better with both the volume and price index increasing by 7.55 per cent and 0.60 per cent respectively. On the other hand, while the export volume of primary products rose by 5.11 per cent, their price index

RMG exports' fetched \$ 1167.67 million, 9.60 per cent short of the target. This showed a meagre 0.87 per cent rise from the corresponding period of the last fiscal year.

dipped by 8.73 per cent during

Knitwear worth \$459 million were exported against the target of \$500 million during the period, which is 8.20 per cent less than the target but 26.99 per cent up from last fiscal year's same period.

Frozen foods priced at \$148.82 million were exported during the July-November period of the current fiscal, which is 20.67 per cent up from the goal and 7.21 per cent higher

from last fiscal's corresponding

Jute goods worth US\$ 125.31 million were exported against the \$129.17 million target. The earning is 2.99 per cent less than the target but up by 1.09 per cent when compared with last fiscal's corresponding period. Its unit price declined by 2.25 per cent while the export volume increased by 10.89 per

Leather earned \$80.80 million during the period -- a 7.73 per cent rise from the target and 32.81 per cent jump from last financial year's corresponding

Chemical products worth \$31.25 million were exported during the period against the \$40 million target. Its unit price dipped by 16.42 per cent while the volume surged by 12.25 per

During the period, raw jute worth \$24.13 million was exported against the target of \$30 million, which is 19.57 per cent

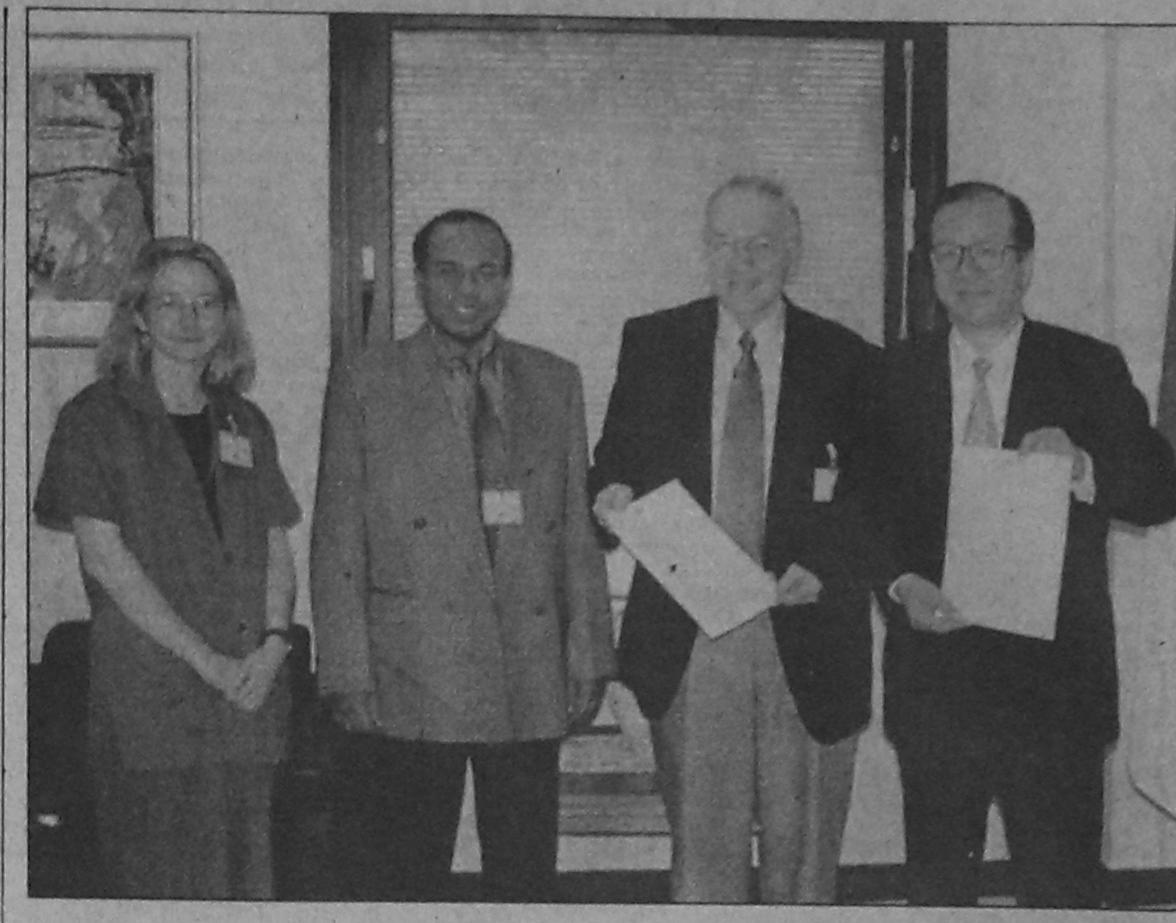
less than the target and 0.50 per cent higher than last fiscal's same period. Its export volume was down by 8.73 per cent although the unit price jumped by 10.12 per cent.

Tea export nosedived with 4.34 million kg worth \$ 7.16 million exported during the period against the target of \$16.67 million. This means a drastic 57.05 per cent fall from the target and 68.01 per cent short of last year's same period.

The unit price of tea also dipped by 6.78 per cent and its export volume declined by 65.77

Export earnings from handicrafts were \$2.06 million against the \$4.17 million target. This also shows a big 50.60 per cent decline from the target and 18.58 per cent from the corresponding period of FY '99.

The United States was the major market for Bangladeshi exports, accounting for \$849.67 million or 38.97 per cent of the total exports.



Kazuyoshi Urabe, Ambassador of Japan in Bangladesh, is seen with Dr David A Sack, Director of ICDDR,B, at the \$80,000 grant contract exchanging ceremony, which aims at helping ICDDR, B-PSKP Urban Family Health Partnership Clinic. Molly Mort of USAID and Dr ATM Khaliquzzaman of PSKP are also seen in the picture.

IMF sees benefits, costs from capital controls

WASHINGTON, Jan 12: Controls on volatile cash flows around an increasingly open world have benefits as well as costs, but cannot substitute for good policy, the International Monetary Fund said yesterday. reports Reuters.

An IMF document on capital and foreign exchange controls said that curbs like the ones Malaysia introduced during Asia's financial meltdown could sometimes help.

But the paper, which examined the situation in 14 countries in four continents, stopped short of laying down a clear IMF position on the controversial idea of whether countries should do more to control a noney flowing in and out.

This review of the use and lib eralisation of capital controh s in 14 countries cannot be again illustrates the difficulty of precisely assessing the effect of capital controls, which may have benefits as well as costs,"

It added: "Capital controls cannot substitute for sound macroeconomic . policies. Countries with serious macroeconomic imbalances, and no -credible prospect for improvement in the short run, were regularly unable to address large-scale capital flows or their adverse economic effects by using capital controls."

The document, inconclusive as it is, nevertheless shows how far IMF thinking has changed since the Asia crisis unfolded in 1997' and one country after another turned reluctantly to the fund for help.

In September 1997, little more than two months after the collapse of the Thai currency triggered the two-year crisis, to push for capital account lib-

This idea shifted to the back burner as the scale of the crisis became clear, and last September the IMF it gave Malaysia's controversial capital controls a cautious seal of approval.

"Directors broadly agreed that the regime of capital con trols, which was intended by the authorities to be temporary had produced more positive results than many observers expec'ted," it said.

Experts now say that vast capital inflows into Asia before the crisis encouraged countries to invest in projects which were not needed or useful, but the equally vast outflows then sent their reconomies spiraling to-

ward disaster. Countries like Russia actively encouraged outsiders to invest in its domestic shortcons idered exhaustive and it the fund proposed altering its term Treasuries market, withcharter to encourage countries out ensuring its economy was

ICDDR,B to get \$80,000 grant from Japan

Kazuyoshi Urabe, Ambassador of Japan in Bangladesh. US\$80,000 (approximately Tk 39,20,000) grant contract with Dr David A Sack, Director of International Centre for Diarrhoeal Disease Research. Bangladesh (ICDDR,B), says a press release.

ICDDR.B will utilise the grant in constructing "the ICDDR, B-PSKP Urban Family Health Partnership Clinic" in the premises of ICDDR,B for providing services such as case management of diarrhoea diseases, maternal and child health, family planning, nutrition and breast-feeding promo-

The clinic will also reduce patient load at the ICDDR.B hospital where at present more than 120,000 diarrhoea pa-

tients are treated annually. Progoti Samaj Kallyan Protisthan (PSKP), one of the cooperating agencies of the USAID and UNFPA, will provide health service at the clinic and the running cost of the clinic will be covered by the USAID under the National Integrated Population and Health Programme.

In 1989, the government of Japan started grant assistance to the Grass-Roots Projects (GGP) through Non-Government Organisations. In Bangladesh, a total of 58 NGOs have already received the financial assistance under this scheme.

Majority of Swedish ruling party supporters favour EMU

STOCKHOLM, Jan 12: Supporters of Sweden's ruling Social Democrats (SDP) have come out in favour of Europe's currency union for the first time with a slim majority back ing EMU membership, an opinion poll published today

showed, reports Reuters. Pollster Demoskop found 42 per cent of SDP voters interviewed between January 4-11 would vote for joining Europe's economic and monetary union (EMU) if a referendum was held today while 39 per cent would vote against membership. The rest were undecided.

OPEC seems set to prolong cuts for shoring up rally

LONDON, Jan 12: OPEC oil exporters yesterday looked set to prolong output cuts to shore up a year-long rally that has fattened state coffers hit by a 1998 price slump, reports

- A series of OPEC signals that the group will extend cuts beyond their end-March expiry were lending support to prices that recently had eased off nine-year highs hit in Decem-

On Tuesday Iran's Deputy Oil Minister said he believed that ·there was now a consensus in the Organisation of the Petroleum Exporting Countries

to maintain the supply limits. "Yes, I think so," Kazempour Ardebill told Reuters in London during a visit to Britain by a delegation led by Iranian Foreign Minister Kamal Kharrazi. Kazempour said export limits would probably be left in place for at least three months from

IPE Brent crude futures for February delivery reacted favourably, trading 53 cents stronger at \$24.26 a barrel. Brent had hit a high of

\$26.15 last month, well over double sub-\$10 lows touched a year ago, following year-long production cuts agreed by OPEC and some non-OPEC producers in March 1999. OPEC's apparent preference for prolonging the cuts delays

the day when it must tackle the tricky task of putting more oil on the market to capture a larger share of growing world demand, analysts say.

That will require OPEC to agree to share out larger output quotas, something the fractious group must try to do without depressing the market and with a minimum of diplomatic fric-

It will also test the staving power of OPEC's compliance spoke on condition of with the output limits set by the current accord, they say.

Kazempour's comments were the latest in a series of indications from key producers that the exporter cartel is for the moment not worried about overheating the market and will pursue its policy of restraining supply to support

Some OPEO members including dominant producer Saudi Arabia had signalled they might release more oil if prices had made a sustained, sharp rally on supply shortages around the new year.

But on Monday evening a Gulf source familiar with Saudi Arabian oil policy said OPEC would not make any changes in current oil production levels at an upcoming meeting in March. The OPEC meeting for

March will not change things that much ... they will remain as is," said the Gulf source, who anonymity, at an industry function in New York.



Lhatu Wangchuk, Ambassador of Bhutan in Bangladesh on behalf of the Kingdom of Bhutan, and Phiphit Suphaphiphat, ADB Resident Representative, sign the loan accord for the Sustainable Rural Electrification Project in Bhutan late last month. -ADB photo

Bangladesh capital market in the new millennium

By SAK Rahat Jaman and Syed Abul Basher

-AFP photo

broadly the securities — debt and equity instruments.

42,000 yen (400 USD).

Both money and capital market are underdeveloped in Bangladesh. A number of reasons may explain why this is happening. Firstly, Bangladesh Bank (BB) only holds 91-day bills but the buyers have been limited to commercial banks. In case of capital market, debentures issued by both autonomous bodies and corporations (housing and petroleum) are primarily held by BB and nationalised commercial banks (WB, 1994). Money market instruments are technically riskless and thus incorporating them in his portfolio, an investor can reduce his portfolio risks. Another reason why a strong response from the investors could not be observed in Bangladesh market is perhaps this serious dearth of risk-free assets in the secondary market to individual buyers. This absence of risk-free assets in the

average risk. Secondly, the market does not treat its investors fairly. Investors do not have access to information. It is complained and established by the 1996 index crush at Dhaka Stock Exchange that the capital market is prone to mal-trading and manipulation. All these ended

capital market increases the

to invest in the capital market. The other major problem faced by the capital market of

An employee of Japanese electronics manufacturer Sony Corp. shows off the world's first portable MD player with a wireless remote controller "MD Walkman MZ-E7W" at its

showroom in Tokyo on Wednesday. The wristwatch-shaped remote controller is also equipped with the usual digital watch functions, including calendar, stop watch and alarm. The company will put the new product on domestic market from January 21at a price of

Banglad esh is lack of adequate good Scripps. Out of around 3,000 public limited companies. only 17.3 have issued securities keeping; a large number away from the securities market (Saha, 1995). The governance structure of these companies is also responsible for the weak condition in that these companies prefer to keep the ownership holdings within the "family coririections" (i.e. closelyheld companies). The fact is further aggravated when viewed from market capitalisation point of view. Market capitalisation as a percentage of GDP is 46 per cent in India. 17 per cent in Pa'kistan. 109 per cent in Thailand, 324 per cent in Malaysia but only 5 per cent (1995) in Bangladesh. clearly indicating a weak capital market participation in its eco-

nomic: development. Finally, the rate of institutional investment is very low in Bangladesh. The ratio is only 20 per cent while most other developing nations experience a ratio of 50 per cent. Investment Corporation of Bangladesh virtually remains to be the single-most institution investor in the country. It was created in 1976) to broaden the investment

market. Aparl from managing mutual funds. ICB is also responsible for underwriting securities. However, ICB performed poorly and large segments of its loan portfolio are contaminated by arrears, resulting in non-performing loan component of as high as forty per cent. Lately, some private institutions have also begun underwriting, but a lot is yet to be done.

As a strong capital market exerts its benefits in a country's economic development, a weak cating funds elsewhere.

capital market has also its bearings on the economy. Weak capital market leaves little, if at all, cushions of projects to cope with any time they run into difficulty. Since a weak market is not liquid enough, resale of troubled projects is seemingly impossible and thus investors feel more comfort in withdrawing their participation in such market and relo-Generally, equity financing is superior to debt financing, since equity empirically

yielded higher returns to com-

pensate its in-built higher risks

than debt; business firms in

Bangladesh have preferred debt

financing. Due to absence of a

strong capital market, large

projects are predominantly

debt-financed in Bangladesh

soft terms. The low equity requirements by banks and the liberal terms under which debt is available and the lax encroachment of debt contracts all combine to make equity less necessary and debt more attractive as a financing alternative. But debt-ridden projects carry a higher total risk as financial risk increases on top of business risk with financing projects inundated in debt. Consequently, these projects become more susceptible to business disruption because of their high debt burden. This is precisely the reason why many a profitable venture have failed in Bangladesh. The consequences are fur-

ther evident in the form of capital flight. Economically: the fund should be invested where it earns the most. Historically, the capital market in Bangladesh did not pay much. Intuitively, funds should have flown out of Bangladesh and that is what exactly the Bangladesh capital market experienced. Between 1973 to 1992. US\$ 176 million per year fled out of Bangladesh; the worst years being 1986, 1987. and 1990, when around US\$3 billion fled the country (Alam et. al, 1995). Consistently, market has been decapitalised at an average annual rate of 29 per

1995, the total market capitalisation was US\$1.4 billion while the figure was just above US\$1 billion in October 1999. Apart from the absence of a strong capital market, smuggling, political instability and corruption have been the important reasons for capital flight. Market decapitalisation is

unlikely to take place in pres-

ence of a strong capital market. Had there been no market decapitalisation and had the market capitalisation grown at least at the rate of GDP, the lost US\$787 million could have been utilised in the country's economic development. In Bangladesh, there are 54 lossstricken state-owned enterprises (SOEs) that are still to be privatised. The government wants to get rid of these sick enterprises. A number of developing countries including the former Soviet Union, Eastern Europe, Asia, Latin America, and Africa also privatised their ailing SOEs for economic growth. Privatisation in the form of capital market development was also proved effective in these countries. Besides, Bangladesh also envisages developing its infrastructure by investing both public and private money. These investments are characterised by lumpy in-

vestment, and are chiefly debt-

market instruments are up in the investors' reluctance base and develop the capital because of its availability and cent between 1995 to 1999. In financed. Financing these projects with commercial bark loans today is very tight as the commercial banks already have a long list of defaulters. Capital market participation. in the form of floating debt and equity, remains to be the acceptable option of financing and materialising these pro-

The discussion no doubt called for the need for a strong capital market. However, to foster the capital market development a number of initiatives have to be implemented. The government will have to participate in the capital market more actively. It should endeavour to make the market more liquid and can float treasury bonds. Availability of risk-free instruments would allow investors to diversify their portfolio and carry lower risk. By successfully mobilising finds from local sources, the government can also reduce its dependency on foreign funds to finance its growth. Of course, public awareness and the development of stock market infrastructure are also essential to the capital market growths. Side by side, enforceable regulation will also have to be ascertained to ensure financial transparency, stop financial malpractice and any form of market manipulation

the thrust sectors through which it can develop the capital market. To name a few, information technology is one such sector to which Bangladesh should really pay attention. This nascent industry could be made public, a specialised bond-styled "Chip Bonds" could be introduced to finance the boundless growth. Infrastructure remains to be another vital sector which could be effectively privatised to gear up the economic growth. Development of infrastructure had been a priority for successive governments. For example, in 1999-2000, more than US\$1.2 billion has been allocated for infrastructure development. Further, it is estimated that in FY 1999-2005, investment requirements only in the power sector would be US\$3 billion with at least the half of it reserved for the private power projects. Similar needs are also felt in the water. gas, and telecom sectors. The government does not have the money to meet this obvious investment needs. Therefore, it is high time to address the capital market development. We can't afford to look back anymore as we have entered the new millennium. We badly need a millennium-compliant capital market than can absorb these investment needs as well as play its due role to the economy. The authors are investment

The country should identify

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