

NRB remittance and investment

More needs to be done in the area of policy research. I will argue that we operate with very little information on these vital aspects of the equation. Even in a country like India, where remittances play a major role in the economy, a recent study conducted by the V.V. Giri National Labour Institute laments that "there have been certain lacunae in policy and research on the promotional aspects of remittances."

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IN the February 5 and 6 issues of The Daily Star, Dewan Sadek Afzal and Dr. Halimur Rashid Khan identified some important issues affecting NRB remittances and offered various policy options to facilitate and increase inflow of remittances from abroad. I will spotlight two important issues mentioned in both Afzal's and Khan's papers, given that these issues have important policy implications.

They are: reduction of the costs of remittance, both in monetary and real terms, and methods to enhance the attractiveness of money transfers to Bangladesh and of reinvestment. Another item is outreach and publicity targeting the expatriates in every country with a sizeable NRB concentration.

Diversity within NRBs

I believe that future policy initiatives to increase NRB remittance, and its productive utilisation, need to be framed not only in the context of

Bangladesh's economic environment, but also be informed by objective conditions in the host countries. As I travel in Canada, UK and Saudi Arabia, I am reminded of the diversity in the economic conditions that define their current existence and future opportunities for employment and investment.

In a recent conversation with an NRB friend who has been working in Singapore, I learnt that he and his family are debating whether to buy an apartment in Dhaka or a condominium in Canada. While I can see that not all NRBs face this dilemma or choice, I can see that many of them do face a complex set of opportunities.

Have also become aware that the Bangladeshi diaspora comes in different shapes and sizes, and a government agency, or "secretariat," that is charged with "NRB affairs" would be well-advised to consider these angles in proposing any policy actions to the new Parliament. A "one size fits all" policy or program will not be able to take full advantage of the remittance pool, and a sizeable

magnitude will remain untapped.

The economic perspective

Secondly, allow me to raise another point that might be obvious to some readers but is worth reiteration. An individual's, or a household's, decision to remit is, in part, an act of saving or postponement of immediate consumption. From an economist's perspective, an NRB's decision to save and remit is to a considerable degree driven by a rational process where he/she weighs the choices he/she faces with his/her earnings, and the opportunities for investment in both the host country and Bangladesh.

This has been documented in several studies done in Bangladesh, India, and Nepal on this topic. For example, a study done by Dr. Ferdous Murshid and his colleagues at Bids shows that migrant workers weigh the savings and investment decision, as well as the channels to utilise them, in a much broader context than was previously considered.

An implication of this apparently

simple concept is worth pursuing. The opportunities that an NRB in Oman faces are different from those available to NRBs in Australia or the USA. For example, when a Bangladeshi worker in Saudi Arabia, faced with the option of indulging in immediate consumption (e.g., purchasing a new TV) or transmitting it to his brother in Comilla (for example, to renovate his dwelling or to buy land), he is weighing the costs and benefits of current vs. future consumption.

However, the circumstances that a Bangladeshi living in Sydney or New York City works under are somewhat different. The policies that the government of Bangladesh adopts needs to weigh these diverse aspects, and attempts to maximise the impact on these groups.

For one group of NRBs, the chief attraction of investment in Bangladesh may be for long-term employment and sources of income after return to Bangladesh. However, for another group, particularly those living in the UK and USA, the law and order situation and the rules and regulations on foreign investment and capital assets may play a larger role in the choice of investment.

Remittances and investment in rural areas

In my book "Investment Opportunities, Household Savings,

and Rates of Return on Investment," I show with household level data that even in poor rural households, an important determinant of inter-household differences in the savings rate is the opportunity for investment. For households that have access to better investment opportunities (ergo, higher return), the rate of savings and investment is higher. Studies done with Latin American immigrants in the USA show that countries with weaker financial systems tend to have lower per capita remittances.

In Bangladesh, we find that, where rural investments opportunities or financial intermediation are lacking, savings tend to flow towards money lending, land speculation and non-productive investments. Non-productive investments can be identified as those uses of resources that do not immediately increase the productivity of the economy or that of the investor.

Global economy and opportunities

Finally, NRBs, whether they are IT professionals or construction workers in the UAE, are well aware of the financial returns of savings and investments at home and abroad. As Sadek aptly argues, the government of Bangladesh needs to play an active and vital role in safeguarding the returns from

investment in rural areas to promote greater NRB remittances.

Various studies have identified three major uses of funds by NRBs and their families; land purchase and speculation, home improvement, and consumption. As is well known, land prices in both rural and urban areas are increasing due to population pressure and influx of NRB capital. As studies show, returns from land speculation are in the vicinity of 15 to 20% per annum. This speculative boom acts as a sponge for investable resources and drives up the cost of productive investment.

Policy makers may also need to promote other opportunities for investment for NRBs temporarily settled in the USA, Canada, UK, and other industrialised countries, but are considering returning to Bangladesh and/or are looking for investment outlets. At the recent Rehab housing fair in New York City, a casual conversation with the throngs of expatriates at the various booths is sufficient to make one aware of the potential reservoir of investment funds that might be augmented with outreach efforts and policy packages.

Policy implications

Once we accept the above premises, we cannot over-emphasise the corollary: policy recommenda-

tions to enhance NRB remittances need to be informed by and reflect the reality on the ground. NRBs working in North America face a very different set of objective conditions than those faced by NRBs in the Middle East. The tax structure, financial returns, choice of investment vehicles and their respective liquidity, to name a few components, are widely divergent in the environments that the saver-cum-investor faces.

If I were to wear the hat of a policy-maker in Bangladesh trying to formulate a set of policies to improve the relative rates of returns (in real terms) for the NRBs, the relevant questions that need to be asked are:

- What are the uses to which the resources are going towards?
- What are the transaction costs, and how to minimise them?
- What are the best ways to channel the resources coming from abroad to improve the returns for the NRBs?

I soon discovered that hard data is very difficult to come by, and is often outdated. However, it is almost universally accepted that the transaction cost of transfers is substantial, because of which some real opportunities to increase remittances are missed.

More needs to be done in the area of policy research. I will argue

that we operate with very little information on these vital aspects of the equation. Even in a country like India, where remittances play a major role in the economy, a recent study conducted by the V.V. Giri National Labour Institute laments that "there have been certain lacunae in policy and research on the promotional aspects of remittances."

However, there is no reason to berate oneself for missed opportunities and lost time. Some good initiatives have been taken, and there is awareness all around that good policy has a positive impact on NRB remittances, and vice versa. A case in point; the governor of Bangladesh Bank admonished commercial banks for not following the central bank instructions that asked them to reach remittances within 48 hours to urban beneficiaries, and within 72 hours to the rural ones.

One can confidently predict that stricter enforcement of these various policies and adoption of other best practices will boost the inflow of NRB remittances and their productive utilisation in the coming years.

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Government and politics

Democracy is possible only where the minority of citizens is willing to accept the rule of the majority, and the majority is prepared to respect the rights of the minority. These conditions, however, do not exist in many countries today.

A.B.M.S. ZAHUR

SOME of us may not like too much government or too many politicians, but we cannot do without government at all. Government does not exist for its own sake, but to help us achieve what we want from life. It does this in the following ways:

- Ensuring the security of the country by defending it against those who might attack it from without, and against those who might try to topple the government from within by violence or treachery.
- Maintaining order by preventing members of the community from harming one another or disturbing the peace.
- Providing justice through the law courts.
- Providing public works and essential services.
- Helping the poor, sick and needy.
- Social welfare.
- Economic policy.

• Conservation and development. The ancient Greeks divided government into three forms -- monarchy, oligarchy and democracy. Each of these forms of government, where it overrides the rights, or ignores the good, of the governed, could turn into a tyranny. In modern times we see tyranny in the form of dictatorship.

All forms of government have one thing in common -- they have authority. In democracy, this authority is based on the consent of the people, who can change the government by a majority vote in free elections. Democracy is possible only where the minority of citizens is willing to accept the rule of the majority, and the majority is prepared to respect the rights of the minority. These conditions, however, do not exist in many countries today.

A government makes laws, carries them out, and decides if they have been broken in particular cases. These functions are called legislative, executive and

judicial. The law-making body is the parliament, the executive is the government, and the system of law is called the judiciary.

Two other principles are basic to democracy -- those of equality and liberty. By equality we mean each human being has an equal right to life, liberty, and the pursuit of happiness. Reformers were more successful in achieving legal equality than political equality. More recently, many have become concerned with economic equality.

Just as equality does not mean that all men are exactly alike, liberty does not mean that man can do exactly as he pleases. The freedom of an individual must always be limited to the extent that it does not interfere with the freedom and welfare of others. Just law and good governance, by restraining people from doing wrong, ensure their freedom to do what they believe to be right.

The right to vote is worth little unless a citizen is free to listen to,

and talk about, facts and ideas, and read and write about them in books, journals and newspapers, and attend meetings and join organisations. Freedom of speech, freedom of the press and freedom of association within the law are cherished political liberties.

Protection of the benefits of good government follows that each of us owes a debt and duty to the community that the government represents. This is the responsibility of the citizens. It means more than obeying the law and paying our taxes, more even than exercising the democratic right to vote. It means using our liberties wisely and well, defending them when need be, respecting the rights of our fellowmen, and seeking the good of all above selfish and sectional interests.

Bangladesh is a democratic country. Despite maiming, particularly by Ziaur Rahman and Hussain Mohammad Ershad, its constitution has not totally lost its democratic spirit. The preamble of the constitution states: "It shall be the fundamental aim of the state to realise through the democratic process a socialist society free from exploitation, in which the rule of law, fundamental human rights and freedom, and

equity and justice -- political, economic and social -- will be secured for all citizen." A majority of our people can change the government by majority vote in a free election because, in this form of government, authority is based on the consent of the people.

In short, the following factors appear to be critical for the lack of success in attaining the objectives of our constitution during the last 36 years:

- Too much preoccupation of the government with rehabilitation and reconstruction work relating to the war damaged economy (1972-75);
- Military coups, counter-coups, and military dictatorships (1975-90);
- Inexperience and lack of proper political background of heads of governments and their advisers, who were more attentive to their political careers and less interested in the political, economic and social development of the people (1990-2006);
- Thriving corruption during the last 36 years; and
- Failure to make the judiciary free from the executive.

The present CTG came into existence when the country was at the

verge of becoming a "failed" state. It has certainly done some wonderful work (commended both inside and outside the country), like making the judiciary independent, reorganising and strengthening the Election Commission, establishing the Regulatory Reforms Commission, turning the dysfunctional Anti-Corruption Commission into a powerful and effective Commission, etc.

We believe that CTG will offer us a free, fair and credible election by the end of the year. However, we are not sure what may happen if emergency is lifted completely. Can our people be free to listen to, and talk about, facts and ideas in journals and newspapers, and attend meetings to make voting a worthy exercise? If the voting is successful, other problems may arise.

How will the reformatory measures of the CTG be treated by the next elected government? Should proceedings against the war criminals start now? Should the power of the president be enhanced and the prime minister's reduced to bring balance? These are the questions to be looked into carefully to enable the next government to settle them.

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Is the sun setting on US dominance?

Asian companies are active in mergers and acquisitions, as seen with Lenovo's purchase of IBM's computer division. India's Mittal Steel bought Europe's biggest steelmaker, Arcelor, consolidating its position as the world's number-one steelmaker. India's Tata Group launches the people's car for \$2500 on its home turf and wants to purchase two British motor-industry icons; Jaguar and Land Rover.

JOERGEN OERSTROM MOELLER

JUST before our eyes a tectonic shift in the global economy is taking place -- the Asian economies rising to replace the US as the dominating global economic power. Absolute figures may still give primacy to the US, but emerging trends suggest its grip on the steering wheel is slipping.

The most persuasive signal is that Asia has decoupled, with a decreasing dependence on the US. The Economist reported in February 24, 2007, that the increase in China's exports accounted for 2.2 percent of the country's 11 percent GDP growth in 2006, down from 2.7 points in 2005. The figure for 2007 was expected to shrink to 1.6 points. Statistics from the Asian Development Bank show that over the last five years domestic demand, primarily investment but also consumption, amounts to more than 80 percent of contributions to growth. The Asian Development Bank's outlook for 2007 reports that the US, Europe and Japan -- the G-3 -- accounted for 43.3 percent of Asia's exports in 2005 compared to 53.2 percent in 1985.

The world's savings also take

place in Asia, excluding the Middle East and its petro-economy. Asia may not like it, but most on the continent have acquiesced in allowing reputable Western financial institutions to shuffle their savings around, investing them as deemed most profitable. However, most of Asia's financial institutions wisely did not embrace the risky financial instruments that included sub-prime mortgages originating from the US. The sub-prime crisis -- triggered by increasing defaults as housing prices slip in the US and homeowners cannot afford rising interest rates -- revealed that these venerable Wall Street firms are less than perfect. In fact, many firms sought rescue from Asia's growing wealth funds.

The list of Western financial institutions relying on support from Asia reads like a "Who's Who" in international finance. For example, Singapore's General Investment Corporation took a stake of \$9.7 billion in UBS, China Investment Corporation channelled \$5 billion into Morgan Stanley.

The support does not signify control or ownership, but does signal that global investment decisions can no longer be made with-

out hearing Asia out. An augury of what the world can expect surfaced in February 2008: The mining giant BHP wanted to acquire its competitor Rio Tinto to create a juggernaut sitting on one-third of the world's trade in iron ore and the biggest producer of aluminum and coal. China feared that the new company would use its power to push up prices and stepped in to prevent the merger. With a war chest of \$120 billion, the Chinese aluminum company Chinalco entered the fray offering to bid for Rio Tinto.

Multinational companies originating in Asia, excluding Japan, not only emulate existing Western multinationals, but also forge their own path. Companies from small nation-states like Singapore are active, as can be seen with Singtel and DBS, both of which invest in other Asian countries, but still hold back from the global scene. Chinese and Indian companies demonstrate no such modesty: Chinese companies like Lenovo, Petrochina and CNOOC spread their wings globally, and Indian companies like Mittal Steel, Tata, Wipro and Infosys also enter the big game.

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with Lenovo's purchase of IBM's computer division. India's Mittal Steel bought Europe's biggest steelmaker, Arcelor, consolidating its position as the world's number-one steelmaker. India's Tata Group launches the people's car for \$2500 on its home turf and wants to purchase two British motor-industry icons; Jaguar and Land Rover.

Inexperienced compared with established Western multinationals, most Asian firms, particularly the Chinese companies, prefer the minority-shareholder route in this initial phase of going global. Industrial and Commercial Bank of China has taken a 20 percent share of South Africa's largest bank, Standard Bank, also operating in 18 other African countries, thus gaining a foothold in Africa. Two Chinese firms vie for 20-percent stakes of the West Australian iron-ore miner, Mount Gibson. India's biggest bank, ICICI, is present in 18 countries through wholly-owned subsidiaries, branches and representative offices. International operations account for about 23 percent of its consolidated banking assets.

The exciting question is whether a new corporate culture forged by the Asian way of doing business -- more cautious, more network-oriented and not compelled to publish higher earnings on a quarterly basis -- will emerge, or whether the new multinational companies born out of Asia will adopt existing formulas.

The most likely outcome is a gradual transformation of corporate culture, deriving Western

companies of their monopoly of not only doing business, but also drawing the lines in business culture. Admittedly, Japan, China, India and Southeast Asian countries have striking dissimilarities in business practices, much like the differences in US and European practices. Still, the fundamental difference between Asian and Western business culture remains the Western focus on short-term profits, a factor that was instrumental in the Enron and WorldCom disasters.

The reaction of the Western world to Asia's rise is defensive in nature, bordering on protectionism. For decades, the Western world, in particular the US, praised the free market, free trade and all related principles. Now, as newcomers like China and India use free competition to erode market shares of established powers, another tune is heard. The US imposed steel tariffs in 2002, Brazil disputed American cotton subsidies in 2005, and in July 2007 the US Senate Finance Committee voted 20-1 to allow US companies to seek anti-dumping duties on goods from any country that maintains a "fundamentally misaligned" exchange rate after being formally cited by the US. Final approval of the latter legislation is unlikely, but such moves signal a change of the tide.

The US and the EU criticise China for not appreciating its currency. More politicians question free trade as the best model in the era of globalisation, and talk about America's economic sovereignty. And even as sovereign wealth funds

bail out US financial firms from their sub-prime mess, politicians and investors fret about the size and goals of the funds, determined to set limits, as was done when the US Congress put a stop to the takeover of US ports by a Dubai-based consortium in 2006.

Asia may well solidify its position as the largest and most dynamic economy in the course of 2008. It remains to be seen, however, whether Asia is willing, or indeed allowed, to shoulder the political responsibility that comes with such power. Will the US and Europe relinquish institutional power that no longer reflects realities? One wonders how long members of the G-8 can discuss the global economy without China and India as permanent members, and how the IMF can continue to function with imbalanced quotas -- 16.79 percent for the US, 5.88 percent for Germany, 4.86 percent for each Britain and France, compared to 3.66 percent for China and 1.89 percent for India.

Such imbalance between wealth and power is a recipe for a global stalemate, paralysing any efforts to put together a framework to take over after the one so wisely crafted almost 60 years ago giving the world the trinity of the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade.

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Blood, sweat and tears of laughter

WE are pleased to announce that thanks to the miracle of modern science, this column may expand your blood vessels! Legal disclaimer: Or it may not.

Medical warning: If it does not, just deal with it. Do not cut this column out and insert it into a blood vessel, or any other part of your body.

Hmm, let me start at the beginning. Somewhere in the sky between Indonesia and China, a flight attendant tapped my arm. "Didn't you used to be Nury Vittachi?" she asked.

"No," I replied. "I used to be Johnny Depp. Then I became Britney Spears. I'm planning to be Nury Vittachinext."

She looked puzzled for a second and then laughed.

A Singaporean was eavesdropping. "You're Vittachi is it? I used to read your funny columns all the time-lah," he said. "But what's to smile about in Asia these days? You can't breathe the air, the wildlife is extinct, and our life savings are trapped in a casino called the stock market."

"So. An optimist." I was nearly right. He turned out to be an optometrist, a Latin word meaning "octopus-measurer."

The woman in the next seat had an even sadder tale. "My husband ran off with a woman eleven years older than me," she said. "That makes me the most humiliated woman on this planet."

"Wow, you really are," I agreed. Being a deeply sensitive person, I quickly realized that this had not been the kindest thing to say, so added: "Never mind. They'll both die before you do."

"That's the plan," she muttered darkly.

The optometrist was a standard modern Asian yuppie. Suit by Crocodile. Shirts by Van Heusen. Shoes by Bally. Waistline by Starbucks. He showed me the earthquake, the stock crash and the ferry disaster in his newspaper. "The news is so depressing. Start writing funny columns again. You'll do more good than a hundred doctors," he said.

The sad woman next to me,

who was a doctor, cut in: "Laughter expands blood vessels, decreases serum cortisol and boosts the immune system. A humourist can in theory boost health better than a doctor."

"You flatter me. You after my body?" I asked.

"Eww, no thanks," she said, wrinkling her nose.

The flight attendant and other passengers joined in. "Make us laugh," they said.

I spent the rest of the flight deep in thought. Before hanging up my typewriter in 2004, I wrote literally thousands of humour columns for more than a dozen newspapers and magazines around Asia. I saw myself returning to that profession as a sort of



Laughter is the best medicine.

physician-writer: "Take two funny columns before bed and call me in the morning."

And then I came to my senses. I decided I would write a column a day this year, but offer no guarantee that they would expand your blood vessels. They may give you one more smile than you'd otherwise have had.

And when I advised you at the top of this column not to insert this newspaper into a blood vessel or any part of your body, I should have added that it should not be inserted into your columnists' body, either. We are deeply sensitive people.

Tomorrow: Jokes that can kill.

Nury Vittachi was born on Earth and still spends much of his time there. Visit him on www.vittachi.com.