The primary sector strikes back

DR SAADAT HUSAIN

The soaring prices of cereal crops have bludgeoned the poor and people with fixed income more than any other group. Poverty reduction programs were disarrayed in developing countries. Some economies were brought to the brink, with poverty, hunger and despondency parading at every corner. The fall-out at times became simply impossible.

A few decades ago, the primary sector was treated as the scullery maid of economy. The smaller it was reduced to in terms of its contribution to GDP and employment generation the more developed the economy was supposed to be.

Terms of trade, vis a vis secondary and tertiary sectors, were drastically tilted against primary sector, which comprised minerals and natural resources along with farm produce, forest, fisheries and livestock. As a result, agricultural goods and mineral produce, including fossil fuels, were dirt cheap compared to processed goods and services.

People engaged in the primary sector were not well remunerated compared to those in the secondary and tertiary sectors. Maybe they were bound to conventional thinking and conventional way of life. They were satisfied with whatever they got in the bargain with their counterparts in other two sectors.

Economic agents belonging to secondary and tertiary sectors relished fruits of their bargain, and expected that the drill would continue perpetually. This was a universal phenomenon and Bangladesh was no exception.

In this connection, I fondly remember world famous Didar cooperative's Yasin, a Magsaysay award winner. He used to say: "Sir, you are lucky that the farmers do not seriously calculate the cost benefit of rice production in their plots, they do it as a matter of traditional occupation and they are content with whatever they receive in return. Had they carried out the cost benefit calculus, they might not have opted for rice cultivation. The present price of rice is kept artificially low and the farmers are exploited by the city people. Maybe this will not continue for ever."

Yasin was one of the most ingenuous indigenous persons I have seen. I found his arguments convincing and always believed that time would prove that Yasin's statement was indeed prophetic.

Price setting in the so-called free market economy depends, among many other factors, on the market power of bargaining agents. Information economics has unfolded games that agents in the market play to reap maximum benefit from the bargain. Concealing information, introducing mischievous noise and misleading the gullible suckers etc. are the usual tricks resorted to by the astute and powerful counterparts on the other side of bargain.

Control over high valued or high tech logistics, financial infrastructure, legal and administrative institutions, and also their specialised knowledge and skill are the usual instruments they apply to wrest the market power. The result: the powerful get what they demand and the powerless grant what they must.

Price determination of primary goods, including petrol, oil, lubricant (POL), is the outcome of power play among players of all three sectors in the market. For a long period up to 1973 the industrialists and service providers kept the price of POL abysmally low, taking advantage of the ignorance, poverty, disparity and disputes among the producers of this crucial product that keeps the economy moving. At this juncture, the table was turned against the secondary sector by a set of young Arab leaders who were enlightened, highly educated, assertive and professionally competent to match elites of the developed industrial countries.

These young leaders carefully and correctly read the market structure of their product and built up the right kind of sellers' organisation to bolster their bargaining position.

This worked well. The producers of most strategic primary commodity asked a price for their commodity which was fair according to their assessment, and developed industrial countries had no option but to oblige. The Arab countries, and other oil producing countries, got the taste of their market power and retained it through assiduous maneuvers since then.

Over time, they have strengthened their position to catapult the price of oil to a staggering height. Industrial behemoths have to pay fair price for the primary product that they cannot do without.

Recently, the prices of agricultural products have started soaring upward. Some economists have termed it "agflation." Initially, it was perceived to be a short-term phenomenon. Market analysts now predict that the situation will persist for a long time, maybe for an indefinite period.

Prices of perishable commodities may plummet in the peak season in absence of preservation facilities. Prices of non-perishable items like cereal crops are not likely to come down markedly because over-abundance of supply in market is not likely in the short run.

Food grains can be stored for a fairly long time. If a country harvests a bumper crop, it will build up a buffer stock to meet emergency situations, which are apprehended to afflict the country more frequently than ever because of climate change. The situation is more precarious for edible oil because oil seeds are being diverted for use as ethanol, a substitute for fossil fuel. Prices of metal ores will also go up as demand for them outstrips the supply. Easing of the price situation does not loom on the horizon.

The main factor for monotonically increasing prices of primary products is their limited supply. It is now perspicuously evident that the original and indestructible wealth of primary sector is indeed limited in supply. Even if supply can be augmented the time lag, or what the professionals call the gestation period, is substantially long, and cost of increasing additional unit is above linearly defined function.

Many of these products have no effective substitutes, which could ameliorate the crisis. While the income-elasticity of these goods are markedly positive the cross-elasticity is often negligible or nil. As the world economy grows and highly populated countries like China, India, Brazil surge ahead, demand for primary products soars both for direct consumption and for use as intermediate goods. No sign of abatement is visible at the moment.

The improved terms of trade for primary sector coupled with the supply constraints have necessitated reformulation of the equations defining the inter-sectoral balance. The development has colossal impact on income and resource distribution. The process is still on; the denouement is not in sight. The initial impact has recruited a lot of apparently negative side effects. It has destabilised economic and social orders in many countries.

The soaring prices of cereal crops have bludgeoned the poor and people with fixed income more than any other group. Poverty reduction programs were disarrayed in developing countries. Some economies were brought to the brink, with poverty, hunger and despondency parading at every corner. The fall-out at times became simply impossible. Governments were seized with immediate crisis of reaching food to teeming millions; they had no time to readjust the sectoral balance in order to build a more stable and just structure.

In the long-run, restructure they must. The expectation that prices of primary commodities will come down to near the original position relative to those of secondary and tertiary sectors will not come true. As was mentioned earlier, relative prices are determined by the complex power play among the agents of different sectors.

Agents representing primary sector are now well informed and adept in the art of bargaining. They are aware of their relative positions, and umbilical dependence of other sectors on their goods, particularly in the absence of synthetic substitutes. They will therefore realise optimal benefits from their coign of vantage.

Consumers in general, and producers or providers in secondary and tertiary sectors, have to forget the days of cheap food grains or cheap fossil fuels and metal ores. The portion of family budget earmarked for food and gasoline has to be enhanced, perhaps at the cost of manufactured consumer items and luxury services. Such readjustment for a healthy inter-sectoral balance will produce benign results for mankind in the long run. It will arrest forces of unfair exchange, instability and tension in the society.Governments of developing countries have to adjust themselves promptly to new reality if they want to overcome the impending crisis. They have to correctly identify the groups most vulnerable to spiraling food prices. These groups have to be adequately projected through income enhancement, apposite subvention policy, and precisely targeted safety net programs including pure transfer.

Income-based classification of the entire population has to be worked out assiduously and impartially. Support programs of the government have to be income-based, and their central validity must not be compromised on any pretext. Any deviation from fair treatment may wreak havoc for the whole nation.

In the medium and long-term planning, governments of developing countries need to put highest emphasis on conserving and expanding natural resources including agricultural land. Self-sufficiency in the production of food grains, other strategic crops and mineral products, including energy sources, must not be undermined in the name of free trade and so-called international obligations.

One must distinguish between autarky and self-sufficiency in the production of strategic commodities. Autarky is self-defeating, but self-sufficiency in strategic items is reassuring in the present context when altruism seems to be receding fast from the international scene.

Instead of lamenting over price hike of primary products, developing countries like Bangladesh should carefully study the market structure of primary commodities and design their production plans in such a way that they can harvest optimal benefits from strategic import substitution, and from exporting their surplus products. Of course, they have to improve their bargaining skills at the same time.

The strength of developing countries still lies in their natural resources and primary products. They should not, therefore, be alarmed at the assertion of the primary sector. They would do better to prepare themselves well for the ultimate fencing, and the victory thereafter.

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Encouraging women's employment in Bangladesh

Women's maternal responsibilities and care-giving role can be strong barriers to employment. In Bangladesh, institutional childcare is practically non-existent. If women's employment is a policy goal then the country needs adequate support services for women to be able to enter, and to stay in, the workforce.

MAITREYI BORDIA DAS AND XIAN ZHU

THE recent report "Whispers to Voices" highlighted the substantial gains in women's status in Bangladesh over the last few decades. School enrolment of girls now exceeds that of boys', infant mortality has fallen, gender differences in survival of children have narrowed, fertility has declined dramatically, and women are now more visible in public spaces than they ever were before.

Perhaps the most significant impact of this was described by young girls when they said "being able to speak," or having a voice has been the most important achievement of their generation.

The report also brought home a sobering truth. Despite so many positive outcomes and despite a significant rise in employment of women in the last decade, women's labour force participation in Bangladesh is 26 per cent, among the lowest in the world.

To those who know Bangladesh, it seems unbelievable. Are women workers not visible wherever you go -- in villages and towns? Yes, they are, and here lies the conundrum. Women are occupied in low-end menial jobs that often do not pay wages. A large proportion report themselves as unpaid "helpers" in household enterprises.

Compared to other South Asian countries, poor uneducated Bangladeshi women reports lower employment rates. This is largely due to the low representation of women in agriculture, compared to neighbouring countries.

Only 59 per cent of Bangladeshi women, as compared to over 74 per cent of Indian, 64 per cent Pakistani and 85 per cent Nepali women, are employed in agriculture. Yet, of those who are employed, the majority works in casual jobs as domestic workers or in agriculture. Women agricultural labourers earn 60-65 per cent of the wages that men do, and statistical decompositions show evidence of wage discrimination.

Perhaps, if there is another earning member in the household, women would rather stay out of a discriminatory labour market. Therefore, continued focus on agricultural productivity and on employment for poor women will be a challenge for Bangladesh in the years to come.

An important corollary is to ensure decent conditions of work and minimum wages in the agricultural as well as the domestic service market.

Women's employment, however, is not merely a poverty reduction issue, though it has been viewed primarily from that perspective until now. There is a new challenge -- one that stems from the gains of girls' education and from the aspirations of Bangladesh to be a middle-income country.

A middle-income Bangladesh will have to be based more squarely in the manufacturing and services sectors, or a "new economy." In order to harness the potential of the educated cohort of women for this "new economy," Bangladesh has to draw women into the workforce.

What will it take to provide educated women entry into the labour force? As a starting point, Bangladesh has to make women's employment a core growth issue and an avowed macro-level policy goal.

So, while it encourages growth in the manufacturing sector through a number of policies it also has to ensure that new categories of industries hire women. To this end, women need information, contacts, and technical expertise to be able to enter the "new economy."

However, manufacturing is only a small part of overall employment and, even at high rates of growth in this sector, self-employment will continue to be important. Here, Bangladesh has to make the leap from providing women with credit to making other linkages that ensure their ability to start small businesses that are lucrative enough for them to report themselves employed.

Perhaps one of the reasons that only a negligible proportion of Bangladeshi women report being self-employed in non-farm enterprises is due to their low representation in the sales and service sectors.

One possible reason for this is the high level of perceived insecurity for women in the public domain. No doubt there are also cultural and other barriers, but the perception that the physical environment is insecure can stymie the efforts of some of the most enterprising women.

Here the police, the local administration, and the judiciary all have to take a firm stand. The deterring effect of swift and strong punishment to perpetrators of crimes against women is likely to be salient.

The positive side in Bangladesh, when compared to India and Pakistan, is that education enhances women's probability of entering the workforce. Clearly, therefore, there is a demand for female labour, and educated women want to enter the labour force. But, once married, women dramatically drop out of work. And since women tend to be married very young, there seems to be only a small window of opportunity in terms of years that educated young women can work. Does it have to be this way, and what does it say to policy makers?

Women's maternal responsibilities and care-giving role can be strong barriers to employment. In Bangladesh, institutional childcare is practically non-existent. If women's employment is a policy goal then the country needs adequate support services for women to be able to enter, and to stay in, the workforce.

This includes maternity leave, flexible work-hours and child care arrangements. We welcome the new National Women's Policy, which proposes extended maternity leave. Now, the task is to turn attention to conditions of work for female entrants into the private sector as well.

Policy is as powerful a tool for governments to enhance women's labour force participation as it is in other respects. The experience of Bangladesh and Sri Lanka in education, fertility and infant mortality shows that clear national vision helped shape positive outcomes.

In OECD countries, tax laws that reward employed women, while also encouraging fertility, have brought about high levels of women's labour force participation. We argue that, with a clear policy focus, related incentives and support services, women's employment can rise significantly in Bangladesh.

On the other hand, if Bangladesh does not give educated young women opportunities outside the home, we can expect dejection and adverse impact on social cohesion.

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Bangladesh: Running on empty?

When I hear that Bangladesh is facing a power crisis because we are running out of gas, I would argue that many economic success stories -- Japan, Taiwan, Singapore, Korea -- have almost no natural mineral resources, but we don't hear of them having regular "black-outs." They have a clear strategy of importing the oil/coal/gas they need, coupled with efficient large-scale generation.

IFTY ISLAM

WHILE there are many reasons to believe that Bangladesh can emulate the FDI success story of India or Vietnam, one factor that could de-rail even a perennial Bangladesh optimist like me is the escalating power crisis gripping the country. I have read all sorts of statistics, such as the current power generation capacity of 4000 MW versus a required 5000 MW (excluding captive power plants). I have read that for every percentage point increase in growth above 7%, we need to add 2000MW of power.

What made the stats "real" for me was the experience one day last week when we had 10 power cuts in one day in the AT Capital office. Our IPS backups failed, and I saw 25 young, energetic IBA/Buet students sitting around doing nothing and feeling dejected and deflated as their computer screens were dead, their backup laptops were also out of power, as were their optimism and enthusiasm.

I told them if we needed to buy candles for them to read by when our back-up power failed, that is what we would do. But surveying the scene from my office got my thinking about the loss in output and productivity other businesses, large and small, across Dhaka and the rest of Bangladesh must be suffering as a result of the power crisis. Indeed, the next morning I saw the head of the knitwear manufacturing association warn of 20% output cuts if their gas was also rationed. Isn't textiles/RMG the key exporter and critical wheel in the Bangladesh economy?

So where has the power crisis originated? The AT Capital infrastructure research group highlighted the following factors:

1)Many power plants are idle due to the gas shortage (natural gas contributes 86% of total generation). Despite all the optimistic projections from experts about Bangladesh sitting on a vast reservoir of gas, it might be argued that previous governments did not take enough initiative to develop new fields. Petrobangla offered its offshore bidding round in March this year, while the previous auction was in 1997.

2) High system loss is another challenge for the power sector. The situation is improving though, as it is around 20 % now versus 28.5 % in 2001. The inefficient transmission and distribution system of state owned companies is the main factor behind this high system loss. A reduction of 1 % system loss can save around 45 MW of power, which can at least reduce the frequency of black-outs.

3) Another factor is the lack of political and environmental consensus to tap Bangladesh's coal resources. We have a probable reserve of 3.3 billion tonnes, which is around 5 times higher than our current proven gas reserve in terms of its heating value. This can support 4000 MW power generation. A 1000 MW coal fired power plant was supposed to be installed by Asia Energy, a project that was delayed due to demonstration by the residents of Phulbari. If this power plant could be installed it could meet around 20 % of the country's demand where, currently, only 3% of generation is coming from coal-fired power plants. There is no dispute that displaced locals need fair and equitable compensation and assistance, and a solution that leaves them satisfied

4) A lack of transparency in power generation procurement and tendering in the past was a major problem. In 2007, the 450 MW Sirajganj power plant, along with seven rental power plants and ten small power plants, were re-tendered. The 100 MW Sylhet power plant was first tendered in 2002, and its fourth tender was received in July 2007! The delays in the evaluation process of the tender were also a reason for excessive delay in the power plants becoming operational.

When I hear that Bangladesh's is facing a power crisis because we are running out of gas, I would argue that many economic success stories -- Japan, Taiwan, Singapore, Korea -- have almost no natural mineral resources, but we don't hear of them having regular "black-outs." They have a clear strategy of importing the oil/coal/gas they need, coupled with efficient large-scale generation. They all, clearly, have an efficient export machine to generate the foreign exchange to pay for those imports. Bangladesh can increase reserves markedly by diversifying its exports, driven in part, I believe, by FDI and Private Equity inflows. Those inflows can also play a critical role in solving the power crisis. Note that India has $ 15billion of Private Equity inflows in 2007, of which $ 5billion was for infrastructure funds alone!

Institutions like IDCOL and IIFC can, and are, playing an increasingly important role. But policymakers need to recognise the suffocating cost of allowing the power crisis to persist. Short-term solutions may involve importing fuel to run small rental power units. But, in the long-term, developing an effective public-private partnership, transparent procurement, and clear incentives for foreign investment along with greater integration with Burma, India and the Asian energy network, should be an absolute priority for this government and the next. Bangladesh has a bright future as Asia's next economic tiger, but not if the light bulbs keep going off!

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Vittachi

ONLY IN ASIA

by Nury Vittachi

Is it a boy or a girl? No, it's a blog

NERDS are celebrating the anniversary of the birth of the word "blog." A geek called Peter Merholz gave birth to it nine years ago. When I first heard the word, it brought to mind the image of a slow-witted, sluggish, thickset male, as in "One of my cousins is a fine-featured, lively intellectual, while the other is an utter blog."

Then someone told me it actually meant "on-line diary." Yesterday I took the time to actually read the current generation of blogs, and realised I'd been right the first time. Most blog writers make your average coma victim look hyperactive. It's obvious the word blog is derived from the phrase "boring as a log."

On behalf of readers I checked out the current blogging scene. The single most common blog title, worldwide, is "Musings." This is followed by "Rants," "Idle Thoughts," "Ramblings" and --this may get you wildly over-excited -- "Ruminations." Be still, my heart.

I clicked on to a few to see if they could be as pitifully boring as they sound. The answer was, no, most were actually even more dull than they sounded. For example, here's a blog from a man in Singapore. "Today wake up quite late. LOL. No chance to eat breakfast. For lunch go 7-11 buy mash potato. Then went to my usual place canteen. LOL." (LOL is short for "Laugh Out Loud.")

Easily able to stop lolling at this, I eagerly clicked to another set of musings and found a blog written by a man who posts photographs of airline meals he has eaten. He wrote about his economy class airline dessert: "It was an off-white cube which tasted of nothing, just like the previous 16 economy class airline desserts."

Then there was a thrilling blog called Cogitations, which began: "I cannot think of anything interesting to write today, so I have decided to write an essay on the subject of being unable to think of anything interesting to write about."

My advice to people who read blogs is this. If you really want a slow, painful death, it is more cost-effective to simply lower yourself into a pool of molten lava.

In seeming contradiction to this, I was amazed to discover a newspaper article explaining that blogs were a brilliant new way to win massive publishing deals.

I phoned my publisher to see if this was true. When he had finished laughing, he said, "Do the math." (This is one of his catch phrases. You say: "Good morning" to him and he replies, "Do the math.")

I heard a rattling noise which meant he was slowly shaking his head. "Out of 1,000 manuscripts written, one gets published," he said. "Out of every million blogs published, one might turn into a book. Do..."

"The math. I get it already."

I phoned a financial analyst to ask his opinion. "There are 120 million blogs and more than 100,000 new blogs are registered every day in Asia alone," he said. At this rate of growth, there will soon be no room for anything else on the Internet except the non-LOL musings of Singapore Blogger and the like.

Oh well, if you can't beat them, join them. My blog's going to be called "Musings of a Sad Sad Person Who Thinks the World Needs to Know That He Lunched at 7-Eleven. LOL."

If you are not a sad person who lunches at 7-Eleven, tell our columnist at www.vittachi.com