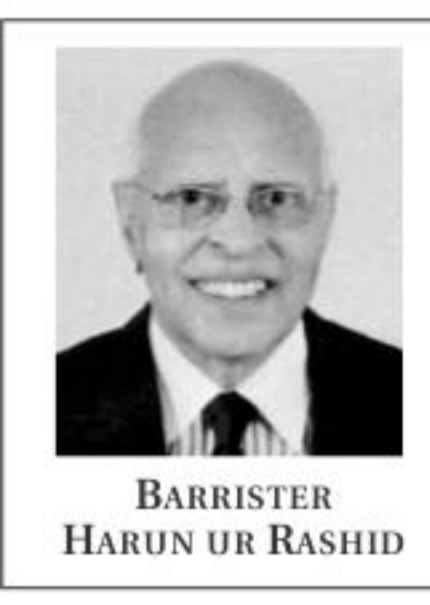


BOTTOM LINE

# PM's Vietnam visit opens up new opportunities



**B**ANGLADESH Prime Minister Sheikh Hasina visited Vietnam on November 2-4, preceding the Asia Europe Meeting (ASEM) Summit of heads of state/government in Laos.

That a business delegation accompanied the prime minister shows that the private sector is keenly interested in having collaborative or joint ventures with Vietnamese entrepreneurs.

Vietnam and Bangladesh achieved their independence through liberation war. Both war-ravaged countries had to go through an arduous process of rehabilitation of people and reconstruction of infrastructures including sea ports.

Bangladesh was the first South Asian and second Asian nation to establish relations with the provisional revolutionary government of South Vietnam at ambassadorial level in 1973.

North and South Vietnam were united as one country on April 30, 1975, when northern communist forces seized control of the US-backed South Vietnam. In 1982, Vietnam closed its embassy in Dhaka for financial reasons and reopened it in January 2003. Bangladesh opened its embassy in Hanoi in November 1993.

Bangladesh-Vietnam relations have been marked by several high level visits such as the then Prime Minister Khaleda Zia's visit in 2005 and President Tran Duc Luong's in 2004. Both nations maintain good cooperation at international and regional levels.

In the past, Bangladesh and Vietnam had signed about a dozen bilateral agreements/MOUs on various issues but many of those have not been followed through. The bilateral trade, though modest, is progressing positively with an average growth rate of 20% per year.

On the day of her arrival, the Bangladesh prime minister held a wide range of discussions relating to bilateral, regional and international issues of common

interest with her counterpart Nguyen Tan Dung, and expressed her firm desire to continue strengthening bilateral relation and cooperation in a wide range of areas including economy, investment, agriculture, information, food security, communications, politics, security and defense.

Mentioning that Bangladesh has immense opportunities for business, Prime Minister Hasina invited Vietnamese investors and media to visit Bangladesh to see the country's overall progress and its potential to become a regional economic hub.

In reply, the Vietnamese prime minister said: "We've found directions for improvement of relations and cooperation between the two countries in politics, diplomacy, security, economy, trade, investment, agriculture, information and communication, culture, tourism and a few other areas."

He said the foreign ministries of the two countries would start discussions and organise the first ever political level consultation next year to cement bilateral relations and exchange views on regional and international issues of common concern.

Later, Bangladesh and Vietnam signed two agreements and two Memoranda of Understanding (MoU) in the fields of fisheries and livestock, agriculture and trade, and to establish Business Councils in both the



The visit reflects Bangladesh's importance as a bridge between South Asia and South East Asia.

countries. Sheikh Hasina and Nguyen Tan Dung witnessed the signing of agreements and MoUs.

Of the two agreements signed by the two countries, one related to the extension of the MoU between Bangladesh and Vietnam on cooperation in the field of agriculture signed on March 22, 2004, in Dhaka.

Another agreement was signed on cooperation in establishment of the Bangladesh-Vietnam Business Council between the Federation of Bangladesh Chambers of Commerce & Industry (FBCCI) and the Vietnam Chamber of Commerce and Industry (VCCI). FBCCI president A.K. Azad and VCCI President Vu Tien Loc signed the agreement on behalf of their respective sides.

Of the remaining two MoUs, one was signed in the field of fisheries and livestock by the two ministries and

another MoU was signed on trade promotion between the Vietnam Trade Promotion Agency and the Export Promotion Bureau of Bangladesh.

Vietnam's economic transformation results in large part from a policy initiated twenty years ago with liberalisation of the economy, even as the country remained under one-party communist rule. Vietnam's economic boom dates to 1995, when Hanoi normalised relations with the United States and joined the Association of Southeast Asian Nations (Asean).

The flourishing economy has dramatically improved life expectancy of 86 million people, and the poverty rate dropped by almost two-thirds between 1993 and 2004. (GDP per head: approx. \$1,174 as of 2012.)

Apart from making shoes and apparel, manufacturing of electronic goods is on the rise because of large investments from companies such as Intel and Canon, of which the latter has built the world's largest laser printer factory in northern Vietnam. The result is a growing number of high-end goods. The top investors are Japan, Taiwan, Korea and Singapore.

There are over 100 UK companies with registered offices in Vietnam. The value of UK investments across a range of sectors was approximately \$ 2.6 billion in 2011.

With the normalisation of diplomatic relations in 1995, the US and Vietnam exchanged ambassadors in May 1997. Washington and Hanoi have been cozying up in a number of areas of mutual interests. The US is Vietnam's top export market and America is the country's number one foreign investor. Two-way trade reached over \$22 billion in 2011 with Vietnam exports standing at \$17.5 billion and imports from the US at \$4.5 billion.

Due to slowdown of global economy, Vietnam's Prime Minister Nguyen Tan Dung predicted growth of 5.5% this fiscal year, with inflation at 8%, and pledged to push forward with difficult structural reforms. Investors maintain that Vietnam's long term prospects are good, provided that the government sticks to its reform plans, and overcomes skills shortage and infrastructure challenges.

Bangladesh and Vietnam can work together in many areas of mutual interest. The visit of our prime minister has opened up new opportunities for both countries to boost economic, social and cultural ties. It also reflects strengthening of Bangladesh as a bridge between South Asia and South East Asia.

The writer is a former Bangladesh Ambassador to the UN, Geneva.

## In defence of independence



M. SHAHIDUL ISLAM

**T**HERE is growing apprehension between the ministry of finance and the donors and development partners regarding the central bank's supervisory and regulatory roles in state-owned commercial banks (SCB). The governor of Bangladesh Bank (BB) is asking for more autonomy to oversee the SCBs. This has been particularly apparent following the central bank's unearthing of the biggest scam ever in the history of country's banking sector involving Sonali Bank and a little-known business outfit.

This does not bode well for the banking sector as SCBs still constitute approximately 28% of the total banking industry assets and deposits. It also brings in the debate on central bank independence to the forefront.

While the ownership of SCBs belongs to the state, regulatory and supervisory functions are de jure in BB's portfolio. However, the central monetary authority does not have de facto power to oversee them. This is largely due to the reluctance of the ministry of finance to grant greater, if not full, autonomy to the central bank.

To understand the issue better one needs to explore the recent developments with regards to SCBs and central bank reforms. The latest round of reform in the sector, particularly in the post-2000s, was undertaken under the aegis of the Central Bank Strengthening Project (CBSP) and the Enterprise Growth & Bank Modernization Project (EGBMP).

The CBSP laid greater stress on the strengthening of effective regulatory and supervisory systems for the banking sector, particularly focusing on the legal framework and capacity building of BB. The EGBMP's objective was to achieve a competitive private banking system by a staged withdrawal through divestment and corporatisation of a substantial shareholding in three public sector banks (Rupali Bank, Agrani Bank and Janata Bank), and divestment of a minority shareholding in the largest SCB Sonali Bank.

The Independent Evaluation Group (IEG), a unit within the World Bank Group, which evaluated the EGBMP in December 2011, observed that "during project implementation it became apparent that the original target of privatisation of nationalised commercial banks could not be achieved. The four nationalised commercial banks were corporatised, brought under the Banking Companies Act and, therefore, regulated by Bangladesh Bank."

What is interesting to note is that even a few months back the finance ministry favourably documented BB's roles in its Letter of Intent (dated March 27, 2012) to the International Monetary Fund (IMF) when it sought a loan from this multilateral entity. It assured the Fund that necessary measures

would be undertaken to increase operational independence of SCBs, strengthen their finances, broaden their capital bases with a view to corporatising their operations, minimise fiscal risks, and reduce the government's effective ownership, with BB anchoring the process.

According to the Letter, it was supposed to submit an amended Bank Companies Act before the Parliament by September 2012, aimed at establishing a clear supervisory mandate for BB.

However, in the recent past, the actions of the ministry of finance have been markedly different from what it committed to the IMF. The autonomy of BB has been curtailed by instituting the Banking and Financial Institution Division (BFID) in the ministry in 2009 through a cabinet decision, which has been an obstacle in monitoring of SCBs by the central bank.

In a recent meeting with IMF, the finance minister said that there was no consensus over reforms in the Banking Companies Act allowing full control to the BB over the SCBs. He even criticised the central bank for its failure to address some recent regulatory failures in the financial system.

The question then arises whether the central bank is capable of regulating all banks, private

### Bangladesh Bank should be allowed to oversee all the banks, and BFID should be dismantled.

and public. BB currently enjoys greater autonomy to regulate private sector banks -- both local and foreign -- that account for nearly 67% of banking industry assets.

Financial development outcome of the banking sector is generally judged on its depth, access, efficiency and stability. Key banking sector indicators show that banks' performance, notably private banks, has increased sharply, particularly in the post-2000s.

Depth in banking assets is reflected in rising share of deposits, private sector credit and broad money in proportion to GDP. Access to banking services is on the rise, reflected in branch expansion and firms' access to credit. While high interest spread is a drawback, other indicators of efficiency in the sector, such as return on assets and return on equity, are favourable. Finally, asset quality, capital adequacy ratios, probability of default, among others, that indicate banking sector stability suggest that private sector banks in Bangladesh are fairly stable.

Nonperforming loan ratios in private banks are now much lower than in state-owned ones. Almost all the private banks meet the global norms on capital adequacy (known as BASEL norms).

Nevertheless, this is not to say that BB has all the instruments to regulate and supervise the banking sector. At the same time, there is no other entity, including the BFID of ministry of finance, which has better infrastructure and capacity to regulate SCBs. It is almost a global norm that banking regulation falls under the purview of central banks.

Then why is the government reluctant to provide greater autonomy to the central bank that has managed private banks well? Further independence of BB was constrained, *inter alia*, by the government's fiscal constraints, largely owing to some flawed policies of the government.

The SCBs have been channelled to monetise fiscal deficits, particularly to finance politically motivated projects that do not get alternative funds owing to governance concerns. These banks are also an avenue to benefit political cronies and businesses, leading to deterioration of the quality of financial intermediation, as we noticed in the case of the Hall-Mark scam.

The recent adverse developments in SCBs have also sent another wrong message to the market. Following the Hall-Mark scam, some analysts opined that privatisation was the only way forward to solve the problems accumulated in these banks. This is a flawed argument for several reasons. My own research on the Indian financial system showed that during financial crisis private sector banks become risk-averse, leading to credit constraint.

The role of the SCBs, apart from the state's social goals, is critical during economic stress. Central bank's "moral suasion" as a monetary policy tool works better in public banks. Corporatisation of SCBs under the central bank guidance seems to be a better solution.

To sum-up, successive governments have delegated autonomy to the central bank over the years in line with banking reform. The reform in the banking sector is broadly successful thanks to the changing focus on risk-based regulation where central bank's role is critical. Thus, BB should be allowed to oversee all the banks, and BFID should be dismantled. The proposed amendment to the Banking Companies Act should ensure its greater independence.

On the finance ministry's concern regarding the problem of "guarding the guardians," what the great Greek philosopher Plato observed in The Republic about half a millennium ago is still insightful, that "one should be able to trust them to behave properly; that it was absurd to suppose that they should require oversight." BB has traditionally been served by competent governors and boards, transforming it into a credible entity. Let the right guardian guard the banking sector.

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## 'The taste of the pudding is in the eating'

Dr. Imtiaz Ahmed, Professor, Department of International Relations, University of Dhaka shares his view with A.B.M Shamsud Doza of The Daily Star on Khaleda Zia's recent visit to India.

**The Daily Star (TDS): How do you evaluate Khaleda Zia's recent visit to India?**

**Dr. Imtiaz Ahmed (IA):** It is a positive visit; there is no doubt about it. From the BNP's point of view, it had an image crisis that it is responsible for anti-Indian activities, particularly link with ULFA, and the ten-truck arms case. Through this visit, BNP tried to say, very openly, that they will not be a part of such activities. Earlier, in Khaleda Zia's paper published in the Strategic Analysis, she made her position clear about India. In this age of globalisation, it is very difficult for a party to have a supportive attitude towards any militant group, and then think of coming to power and getting blessings from the international community. The international community is wary of any militant group, whatever its colour. This is also important for India and the international community. This is the kind of development which would definitely bring stability in this part of the world.

This visit will also create pressure on the ruling Awami League. There was a suggestion that Awami League would go alone in the coming election given the constitutional amendments they have made, and this is something against which the opposition is going to stage serious agitation. As things are getting polarised and violence is creeping back, Delhi, like the US and the EU, wants participation of all the major political parties in the next polls. The reception India gave to Khaleda Zia as an opposition leader makes it very clear that it wants BNP to participate in the coming election. Earlier, people were thinking that Delhi must be behind Awami League, and that is the reason why Awami League is thinking of going alone and not worrying about opposition parties. That kind of situation does not exist now. This would also deepen democracy, which is required in this region -- one party helping another party to strengthen democracy. If democracy matures, then inter-state relationship will also deepen. And in the process, the entire region would be benefitted.

**TDS: Why is India interested in engaging with the opposition party?**

**IA:** There is eagerness from Delhi's side to have amicable relations with all the parties in Bangladesh. The reason behind it is that India wants long-term relationship with Bangladesh, and not a

relationship limited to five years. This line of thinking goes well with the kind of investment India is now planning, e.g. the \$1 billion loan. India wants its investors to strengthen relations with Bangladesh so that it can develop communication to its north-eastern part, and develop that as well.

**TDS: Do you think, after this new rapprochement, there will be some development on the outstanding issues between India and Bangladesh?**

**IA:** There is a possibility of having a bipartisan relationship with India. Earlier, relationship with India was kind of black and white. Nevertheless, we have to wait and see because the taste of the pudding is in the eating. BNP's statements have to be matched by its actions. A bipartisan foreign policy is very important for Bangladesh to emerge as a middle-income country. Bipartisan relationship will ensure our stability.

A free, fair and participatory election is the most important thing now. Delhi will be closely observing the election and how the ruling party handles it. For other big issues like Teesta and 1974 Border Agreement we have to wait until India's election is over.

**TDS: Previously, BNP played the anti-Indian card to bag votes in the election. Will there be any impact of this changed stance on BNP's election outcomes?**

**IA:** When it comes to election, India is not as important as our domestic politics. From that point of view, BNP has nothing to be worried about. More importantly, they need to demonstrate that they can deliver what has been promised. Secondly, if you look at the history of BNP, the anti-India stand is a very recent one. Ziaur Rahman is the person who actually envisioned Saarc, and wanted to bring India, Pakistan and other countries of this region together for a win-win situation for all. In this era of globalisation even the businessmen who support BNP would not want anti-Indian stand because it does not really help them.



Dr. Imtiaz Ahmed