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INTERNATIONAL FINANCE CORPORATION
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Statement by the Hon. **SHAH A.M.S. KIBRIA**,
Governor of the Bank for **BANGLADESH**,
at the Joint Annual Discussion

Statement by the Hon'ble Shah A.M.S. Kibria, Minister for Finance, Government of Bangladesh, and Governor to the World Bank.

Mr. Chairman, Fellow Governors, Excellencies, Distinguished Ladies and Gentlemen,

It is an honor for me to address this august gathering today. First of all, let me thank the Bank-Fund authorities for organizing this meeting and the administration of Hong Kong for the excellent arrangements. It is appropriate that this meeting, the first international event of note to be held after the return of Hong Kong to China, should take place in Hong Kong, which together with the neighboring regions of China, presents one of the world's most remarkable examples of accelerated investment and growth over the past few decades. There are many useful lessons to be learnt here, as close economic relationships become closer, and as the transition leads to even broader global perspectives rather than any shift towards inward-looking economic strategies.

Mr. Chairman,

2. The structure of the world economy is going through a fundamental transformation, as many national economies are undergoing major structural changes and going through a process of rapid integration with the world economy. In a world which has accepted the primacy of market principles in economic management, the Bretton Woods institutions are called upon to play a crucial role in assisting the process of transition and integration while mitigating the disruptions which inevitably accompany such a major restructuring of economies.

3. Globalization and liberalization are the two defining characteristics of the current economic transformation. The two are very closely linked, as the successful liberalization of economies prepares them to stand up to the rigors of global competition, and to fully exploit that most powerful engine of prosperity, free trade. What has been most disconcerting for many countries, such as my own, has been the extent to which the difficult process of liberalization has not been supported by the hoped-for degree of globalization. As a consequence, our domestic industries have been subjected to intense competitive pressures, as anticipated, but the accompanying structural shift towards our export sectors has been slower than expected as we find that many external barriers to our export growth remain in place.

4. If we are all to reap the benefits of globalization and liberalization, it is essential to ensure a level playing field. The major international agencies must maintain an even-handed approach in this regard, and must work towards the elimination of all barriers to trade. Without such efforts, the relative latecomers to the international market place, which includes many developing countries and the economies in transition, will find that the adoption of liberalization policies and export-oriented economic strategies do not yield the expected results in terms of growth and development, and yet entail considerable adjustment costs and risks to macroeconomic stability.

Mr. Chairman,

5. The overall trend in flows of Official Development Assistance (ODA) remains a source of concern. Despite the increased requirements of the economies in transition, the total pool of ODA resources has not expanded in real terms. This is sometimes argued to be of little concern given the dramatic rises in private capital flows. This view ignores the reality of international capital markets, where lending concentrations often exceed the levels warranted by economic fundamentals. Low income countries excluding China and India received only 3.4 percent of total private capital flows to the developing countries, and the vast majority of developing countries receive very little private capital. For many countries the availability of ODA will remain a major determinant of their ability to undertake vital long-term public investments in social and economic infrastructure and in human capital. These investments are not only essential to ensuring a balanced and equitable pattern of growth, they help create an economic environment which can attract a larger share of the rising global flows of foreign financing and direct investment. Contrary to our expectation and need, IDA’s commitments in FY97 declined by 33% from $6.9 billion to $4.6 billion which indicates continued low disbursement in the coming years. Disbursement, however, was only margionally higher than the previous year.

6. The recent growth in private capital flows to developing countries has certainly been dramatic. In 1996 these flows exceeded $265 billion, which is about six times as large as the total at the beginning of the decade, and about five times the level of ODA. The surge in private capital movements presents important new opportunities for the developing countries willing to adapt to the new milieu. Clearly, maintaining stable macroeconomic conditions and a prudent stance of financial policies will be essential to attract significant levels of external private capital. This is particularly important for direct foreign investment, where resources must be committed for a considerable period of time.

7. With heightened capital mobility, the possibility of destabilizing speculation cannot be dismissed lightly. This is particularly true where short-term capital accounts for a large share of total private capital inflows. Wherever financial markets are thin and supervision and monitoring are weak, there is a danger that sharp movements in external private capital, which are not always driven by economic fundamentals, may pose serious risks to individual countries' economic stability. Indeed, given the apparent "contagion" effects observed in the recent currency market turmoil in Southeast Asia, the problem can quickly assume systemic proportions. The inability of national or even regional initiatives to deal with such systemic problems have become increasingly apparent, but international efforts remain rather ad hoc in nature. The Bank and the Fund, which are already involved in advising Governments as to how to deal with the pressures arising from the more integrated global markets, should play a more significant role in developing an effective international framework to deal with the problems stemming from volatile private international capital flows.

Mr. Chairman,

8. The present Government of Bangladesh came to office just fifteen months ago, following free and fair elections held under a neutral non-party caretaker Government. The elections were hailed all around the world as a major step towards establishing democratic rights and accountability in Bangladesh. Within a relatively short period, the Government of Prime Minister Sheikh Hasina has taken bold measures to enhance the quality of governance and to improve economic performance. Financial policies have been geared towards the maintenance of macroeconomic stability while important steps have been taken to deal with structural weaknesses that have hampered the achievement of the faster growth necessary to reduce the incidence of poverty in Bangladesh. The budget deficit and external current account deficits as a percentage of GDP have narrowed, GDP growth has risen to 5.7 percent while inflation remains moderate at an annual rate of less than 5 percent.

9. Important initiatives have been taken in a number of areas to support the Government's economic strategy based on promoting export-oriented private-sector led growth. These measures include the following reforms:

- Opening up the infrastructure sector to private foreign investment. With the assistance of the World Bank, a Private Sector Infrastructure Development Fund has recently been set up to facilitate funding of such investments;

- establishing new energy plants under BOT arrangements;

- revamping the bankruptcy laws to improve loan recovery and strengthen the banking sector;

- initiating reforms of the banking sector and the capital markets, with the support of the World Bank and the Asian Development Bank:

- accelerating the privatization of state enterprises, with the appointment of a private sector businessman to head the Privatization Board;

- undertaking extensive reforms of the legal system to modernize and speed up legal processes to support the expansion of private sector investment and commerce;

- setting up an Administrative Reforms Commission;

- passing legislation to set up effective local government institutions in line with abroader strategy of decentralization to improve service delivery and accountability;

- strengthening parliamentary institutions by improving the committee system.

We believe that all these initiatives will help create the conditions and institutions for more efficient, transparent governance, and help promote the expansion of domestic and foreign investment and private economic activity in Bangladesh.

10. Finally, Mr. Chairman, reforms are easy to talk about but difficult to implement. For a complex and difficult reform program to succeed, it is vital that a national consensus on basic issues is developed to support it. Reforms are associated with gains and losses to groups in each country and across countries, and may thus require compensation to those adversely affected by the adjustment process, except of course those losing rent-seeking opportunities based on distorted structures of trade and production. The process of consensus-building and negotiation is a necessarily time-consuming process in a democratic system in which the government has no wish to ride rough-shod over the will of the people. The Bank and the Fund need to remain sensitive to these issues in order to ensure the progress of structural reforms; and so should the developed countries, the major contributors to the resources of these institutions.

Thank you, Mr. Chairman and fellow Governors, for giving me such a patient hearing.