Dollar and the world economy



CHAKLADER MAHBOOB-UL ALAM writes from Madrid

AST week, the Federal Reserve issued a statement maintain US short-term interest rate at a 45-year low of 1 per cent for "a considerable period". Financial analysts and stockbrokers in New York and Chicago had been anxiously waiting to see whether the Fed would drop its reference to "a considerable period" from its December statement or repeat it as it has been doing since August. Finally, it decided to maintain the same position but hinted that this easy money policy could be revised some time next year. Mr. Greenspan, the head of Federal Reserve stated that the overall economic situation, although still fragile, had changed from a deflationary situation (when prices fall or remain the same over a considerable period of time) to record productivity growth and brisk business. In this context, I think, it is relevant to mention the current interest rates of three other major economic areas. While the rate has recently been hiked up to 3.75 per cent in the United Kingdom, in the euro area it stands at 2 per cent. tion -- because of the deflationary pressure -- has forced its government to maintain interest rate at near-zero percent (0.10%) for some

The initial reaction of the stock market was favourable. For the first time since May 2002, the Dow Jones industrial average rose above 10000. But soon the initial enthusiasm disappeared and at the close of the day, the index fell by 0.42 per cent. Next day it again went over 10000 points. If the reaction of the stock market was not consistent, the news created a havoc in the foreign exchange market. The euro hit a new high of 1.23 against the US dollar (more than 44 per cent rise since the euro was launched). The sterling reached its highest level against the dollar in eleven years and the ven also reached its highest level in three years and gold prices shot up to \$407 per ounce.

Now one may well ask, why are we making all this fuss over the exchange rate problem of one single currency? What is so earthshattering about the news of the plunging dollar? Why is it so important to monitor the movement of market? The importance of the exchange rate of the dollar against other currencies is due to three factors: that dollar is the currency of the world's number one economy and that since the end of World War II the US dollar has become the only major currency in which most of world's financial

economic data stated. The other important point about the US currency is that most of the foreign exchange reserves of central banks are in dollars. According to the IMF, at the end of September 2003, the central banks held \$2.9 trillion of foreign-exchange reserves of which approximately 67 per cent was in dollars. No wonder, " the strength of dollar affects trade balances, capital flows, growth rates, profits, share prices, infla-

been responsible for the export-led economic growth in many parts of the world among which South and East Asia figure prominently, pouring in, employment is rising and technology is advancing.)

What is the current situation of the American economy? According to government sources, GDP grew by 8.3 per cent in the third quarter exchange scandals do not help matters. According to the University of Michigan, consumer confidence dropped to 89.6 per cent in December from aNovember's 93.7 per cent. Inflation remains under control. Although the employment situation improved slightly, experts agree that since most of the productivity growth is technology-driven, American economy is not in a position to create millions of jobs in the near future.

LETTER FROM EUROPE

Even if, in a year or two, the US can manage to correct its current account deficit by exporting more and controlling its citizens' spending spree and even if, in the same period of time, it can manage to reduce its budget deficit by increasing taxes and pruning government expenditure, for the sake of long-term stability of the world economy, the central banks and the investors should restructure their currency reserves and portfolios by concentrating less on dollar and more on diversification.

tion rates, interest rates and even the relative size of economies" of the world (The Economist).

Actually the price of a foreign currency is largely determined by the forces of supply and demand, surplus or a deficit on the current account. Persistent current account deficit of a country creates pressure on its currency. The current account deficit of the United States now stands at 5 per cent of GDP, which can be considered as high by any standard and it is financed by borrowing from the rest of the world. (The US needs \$50 billion dollars a month in capital inflows.) Now the question is: If the dollar is plunging and the interest rate is so low why does the world lend money to the United States? In simple terms it can be described as a confidence trick. First of all, the sheer size of its economy inspires confidence. And second, since the United States has become the only remaining super-power of the world and in its external relations it behaves as such, the lenders believe that it will somehow manage to get out of its financial difficulties and will not default. However, if the United States continues to have huge federal budget (created by Bush's reckless tax-cut policy) and current-account deficits, its debt burden will grow, which in turn will erode the confidence of the market. As a consequence the dollar will keep falling the foreign exchange market and interest rates will rise in the United States.

On the other hand, a weak dollar makes American products cheaper. Therefore, it should benefit its export market, which would give a much-needed boost eventually would create jobs. (According to some sources, during Bush's presidency American economy has lost several million jobs.) Since it would make imports from other countries more expensive, it should also help its balance of payments on current account by putting a brake on profligate consumerism of its people. (Yet, this profligate spending habit of the cally. Can we trust these figures? Has the GDP been manipulated? Have the profit figures been massaged? Given the Bush administration's reputation as spin masters, the doubts seem reasonable. As mentioned in the *Economist* of November 22nd 2003, "a few economists argue that America's growth is also partly phantom, because of the way inflation is measured". Last vear's accounting debacles and this year's stock

While the export-led economies of East Asia are booming (their central banks have been buying dollars to slow down the appreciation of their currencies against the dollar, the currency of their prime export market) and although overstated, the American economy is also growing, the EU is fighting to hold off recession. Experts have been forecasting a modest annual growth in 2003. Exports rose by 2.2

a further growth in exports. But now the rise of euro against dollar will make it very difficult to achieve this goal. The EU central bank may interest rate. As far as the foreign exchange reserves of central banks are concerned, because of the the American economy in the near future and also because of the falling value of dollar, they have already started moving away from dollar to euro. While at the end of 1999 only 12.7 per cent of the reserves was in euro, at the end of 2002 the figure went up to 18.7 per cent. In 2003, there has been a further shift to the euro. It is difficult to imagine the disastrous consequences (first, for the American economy) of a sudder decision of the Asian central banks to shed a large chunk of their enormous dollar reserves.

European Commission forecasted

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Competitive strategy and real estate development

AHMAD TAWFEEQ HUSAIN

OOD real estate management is critical to being successful. In fact, even if you do everything else properly, you've got big problems if you don't know how to manage the houses and the tenants. Finding and buying house is only part of the job. Repairs and vacancies are the two major problems that you will face when investing in real estate, and too much of either will turn a good investment into a bad one. Both of these are results of bad management. Fortunately, once you learn the rules and "tricks of the trade" you can easily put together a system that will allow you to avoid most of the management nightmares.

Past modes of behaviour probably will not carry you through the next decade. The questions are how do you think about the strategy for your business and how do you do that in a constructive way.

Looking at any industry, one comes across two basic questions that has to be answered if to develop an effective strategy. The first question has to do with what's going on in the industry itself. Industries differ dramatically in their profit potential and their profit potential changes over time. You have to understand this because there is something about the game that is going to determine how successful you are to be. There are some games that are good to play in and some that are

Real estate isn't just an industry. It's a whole sector of economy. It is composed of many distinct businesses, each of which is an industry. So developing shopping malls, putting up prime downtown commercial space, and even brokerage are all industries. Each of these industries has a different economic logic. Each of them is different in terms of its fundamental attractiveness. One has to understand how attractive the industries are in which one is competing and how they are likely

The second basic question in strategy has to do with one's position within the industry. No matter where you are operating, you are to decide exactly how your company is going to compete and how you are going to position your former. No matter how attractive or unattractive an industry is, it may do a lot better than others, because it has found exactly the

How can you understand your industry vis-a-vis the competitive environment, and how can you understand how to position your company within that environ-

Basically in any industry, there

are four forces of competition. The first is rivalry amongst competitors. This takes many forms. One of which is the threat of substitute products or services. The second is the threat of new entrants. This is always a threat whenever there is something profitable going on. If they do enter, they are going to erode the profitability of that segment. The third and fourth forces are the bargaining power of the suppliers, from whom you are purchasing critical inputs, and the bargaining power of the buyer to whom you are trying to sell.

The development business is driving a lot of economics that is facing the other businesses within the real estate sector. In development, it's useful to think of two buyers: the tenant and the financial buyer.Often, the financial buyer is considered to be a supplier but I think it is more useful to see as a buyer.

Now what has been happening to the industry over the last decade? Entry barriers have been low and a lot of new competitors have come in. Some of that competition has come from financial ouyers. These new competitors have gotten the capital to build a lot of new projects. This heightening of competition has combined with a slowing on the demand side to lead to overcapacity. But this overcapacity and the active competition have also triggered some shifts in the nature of competition.

We see all kinds of modifications in the nature of contracts, the structure of deals, and the way in which deals are cut. This is a reflection of the rising competition in the industry. People are agreeing to things that they never had to in the past. Part of the problem is that, historically, some of the financial buyers were not very sophisticated and they were willing to finance competitors that were doing dumb things. And this industry has a real dumb competitor problem. Not just because they do uneconomic projects that lead to overcapacity but also because they change practices. They change the rules and start doing things like development for a fee. No one used to do that before and it leads you down a line of competitive development that is not constructive.

This is bad enough but what is nore disturbing is what has been happening on the buyer side. On the tenant side, we not only have fewer tenants but we also have fewer large tenants who can come in and essentially guarantee that your project is going to be successful. They have more clout and exercising that clout. They are cutting better deals and are bargaining away your profitability in the process. The brokers and the tenants have grown and consolidated. They have always been there but their role as a bargaining force against you has accentuated the structural prob-

Now let's talk about the segments in terms of property types and target customers. There are many different types of projects and many types of customers. In the retail side we have malls, strip centres, power strip centre, outlet centre. Each of them is a little different. Each of them has somewhat different tenants. On the commercial side there is downtown and suburban and prime and standard kinds. Now, the name of the game going forward is choice. But as we go forward you have to have true advantage to be an above average performer, and the companies in the industry that are going to make real money are those that bring something distinctive How can you tell what it is that you bring something distinctive to? Your existing portfolio has some powerful lessons in it about your real

I think there are really two critical dimensions for success in real estate business. The first is finding the good deals. Finding those projects, those tenants, those locations that are going to be economically attractive. The second critical dimension is executing those deals well. Why do you find good deals? You find them because you have special insight into tenants in that particular area, because you have more than usual knowledge of a particular geographic region, because you understand that particular type of project better than others. Because you have superior market intelligence, you have superior economic intelligence. Why do you have superior economic intelligence or market intelligence? Because you have a strategy. Because you've done those types of projects before.

Why do you build a project well once you've found one? You build it well because you have the knowledge and resources and expertise that have grown out of experience of doing that kind of project. Even if you look at this as a deal-by-deal basis, the critical determinants of whether a deal is going to be profitable, whether you've found a good one in the first place, and whether you execute it, are very much driven by whether you have a strategy. Strategy means saying no or yes to certain kinds of things, certain kinds of deals certain types of tenants that you are not really interested in.

Ahmad Tawfeeq Husain is a civil engineer

Just a phonecall away...

WO years ago, I lost my credit card on a business trip. Dialing American Express' 800 number, I asked the polite customer rep to read the list of recent charges. As she went through each charge, I noticed the familiar accent in which she enunciated "Duane Reade" and "Blockbuster."

"Excuse me," I interrupted. "Where are you?' "Oh, we're American Express'

Call Centre in Bangalore, India. "Oh really? How interesting."

That was it, we went back to the task at hand and she efficiently finished the job in a few minutes As I hung up, I thought to myself, "Good for India!"

Going through daily life, I started noticing this more often. When I called AOL to try to cancel my account for the fifth time, the helpful lady giving instructions was in India. Palm Pilot's "Level 1" help desk seemed to be in America, but when they were stymied and bumped me to "Level 2", an unmistakably Indian voice came on. Recently, I even started get ting sales calls from India for credit cards.

A few months back, a new pattern began to emerge. Suddenly, the customer service reps weren't eager to divulge where they were from. "Oh, we're not allowed to disclose location," said one nervous voice. Very cloak and Maybe it's some new security measure, I thought to myself. Then the New York Times article came out -- "We're from Bangalore (but we're not allowed to tell you)." Indian call centres now had to acquire American accents and generic Anglo names. There was a new nervousness in the face of an incipient backlash Suddenly, Dell was closing its Indian call centre in the face of protests, New Jersey was trying to pass a bill blocking outsourcing to Îndia, and an angry Indiana politician huffed, "I represent Indiana not India!"

But can the genie be put back inside the lamp?

Outsourcing, BPO (Business Process Outsourcing) and "Offshoring" are new terms in our vernacular. India is at the red-hot centre of this skill-based revolution. Thirty per cent of all new Information Technology (IT) work for U.S. companies is now done abroad, mostly in India. McKinsey Consulting calculated that the top three recipients of US outsourcing in 2002 were Ireland (\$8.3B), India

OfficeTiger, which employs 1,200 people to do research and analysis for eight Wall Street firms. Finally, there are GE Capital's four Indian centers, which design statistical models, prepare data for GE annual reports, write software, and process \$35 billion of global

Indian outsourcing business has always dominated in IT, accounting and financial services. Ambitious Indian firms have now expanded to food-stamp paper-work, auto engineering, drug and it is impossible to calculate how much of these job losses are also due to the overall recession. Job loss estimates range from 600,000 jobs by 2005 (Forester Research) to two million jobs by 2008 (Deloitte).

As anger builds over claims of lost jobs, American unions have emerged as aggressive opponents of outsourcing, often with a thin patina of xenophobia in their

TechsUnite.org (CA), Alliance

SHOBAK

Outsourcing is an incredibly complex economic and ethical issue, with winners and losers on both sides. Yes, why shouldn't Indians (and by extension, Bangladeshis) have a chance to improve their living standards? On the other hand, as thousands of jobs are lost in the West during the present recession, much of the blame will fall on outsourcing. But free trade means the flow goes both ways. If the West demands open access to global markets for its exports, doesn't the Third World have the right to demand free access to labour markets?

(\$7.7B) and Canada (\$3.7B). Analysts forecast that, by 2008, Indian IT services and back-office support will grow to a \$57 B annual industry with four million

Major US companies now have branches in India -- either doing work, or back-office support. The companies include Morgan Stanley, Citigroup, Intel, IBM, Cisco, Motorola, Hewlett Packard, Oracle, Yahoo, Ernst & Young, Accenture, HSBC, and of course, the trailblazer in hiring Indians, Microsoft. Some of these multinationals have had diversified operations in India for almost a decade. But a relatively new phenomenon are Indian companies whose entire business is outsourced work from the US. Recent success stories include MphasiS, which processed tax returns of 20,000 Americans this year (analysts predict that 200,000 US tax returns will be processed in

India next year). Then there is

research, airline industry and work for the U.S. Postal Service. India has two key strengths-- a gigantic technology and science nfrastructure which churns out hundreds of thousands of graduates each year, and the use of English at all stages of education as a unifying language. Armed with this combination, India's potential is huge. China dominates in manufacturing, which is only 14 per cent of the US econ-By contrast, the service industry, where India has laid its stake, makes up 60 per cent of the U.S. economy.

This runaway growth comes with a price. Just as the success of H-1B visa workers during the Internet boom led to an antiimmigrant backlash, the outsourcing revolution faces its own pushback. The key argument here is that every time a project is outsourced, those jobs are lost in

the US. Estimates vary widely,

of Technology Workers (WA) and Rescue American Jobs have all been pushing politicians to pass "Buy American" legislation to limit federal agencies from sending jobs overseas. In New Jersey and Indiana, bills to outlaw shifting state jobs overseas were narrowly defeated. Maryland, Michigan and North Carolina are planning similar legal battles in the future. Incessant complaints about "bad service" and "strange accents" forced Dell Computers to shut down one of its call centres in India, a major victory for the 'America First" lobby. Not everyone accepts the

unions' arguments. In England, the *Guardian* applauded the irony of the new power structure: "Britain's empire is striking back. Former colonies have found a silver lining in the bitter legacy of conquest: English, the language of former masters, is a competitive advantage in the global economy." After Norwich Union sent

one of their centers overseas, a spirited debate erupted on the BBC website. From London, Theresa Law wrote, "Give me an intelligent, well-educated, polite Indian on the end of a telephone handling my customer queries, over an ignorant, rude, unhelpful and unwilling British call handler any day!" Henry, in response to numerous e-mails about "stolen obs" wrote, "What a breathtaking display of economic illiteracy and downright racism. Why shouldn't people in India have a crack at earning a decent living if they can do it more effectively than can be done in the UK?

Outsourcing is an incredibly complex economic and ethical issue, with winners and losers on both sides. Yes, why shouldn't Indians (and by extension, Bangladeshis) have a chance to improve their living standards? On the other hand, as thousands of jobs are lost in the West during the present recession, much of the blame will fall on outsourcing. But free trade means the flow goes both ways. If the West demands open access to global markets for ts exports, doesn't the Third World have the right to demand free access to labour markets? Finally, the unions need to make the connection between outlandish CEO salaries, accounting scandals, and lost jobs. Outsourcing is not the only reason for all worker woes.

The last word on this goes to Simon, another contributor to the BBC website, who wrote, "What we are seeing is capitalism working in a totally uneven playing field and it will carry on until the playing field is evened out. That is going to be a long and painful process and the world simply isn't going to be able to support it's entire population at the standard of living we would like to continue

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Additional Research: Udayan

The story of 'turkey' and 'rat'

M. SHAFIULLAH

LD habits die hard has once again proved right by one of the most condemned men on earth when he summoned Goebles to his rubbish-filled tomb. Herr[Master] disquietly observed his 'time-tested' disciple of late failing in his life-time assignment to update him on worldly

Goebles had a good reason not to carry old baggage to the after-world. But then to avoid giving offence to a life-long master both agreed to settle down to events that escaped attention of probing

In late November Goebles reported that never in history a mighty Commander-in-Chief undertook a Transatlantic journey just to share 'Turkey' on Thanksgiving Day with his beleaguered troops in the desert. Skeptics doubted some forty hour's journey back and forth to share turkey with servicemen seemed to be too much for the busiest Head. There was something more than meet the eyes. Goebbles advised Fuehrer to wait until he discovered the truth behind the story from his disciples in BBC, CNN and FOX.

Good luck for Goebles! He 'got it' sooner than he had expected. His very able informers worked overtime to dig out the fact that had happened in

The Air Force One flew in for the Commander-in Chief to view in person soon after his troops brought the most wanted 'Rat' out of a hole in a farm house. Overwhelmed with joy Chief enjoyed a hearty meal with his troops over 'Turkey'. It was a real Thanksgiving Day for him after so many months of lost appetite and insomnia. Once the great feast and the Executive view of the catch was over, White House-on-board left for its destination across the Atlantic. Later a 'stale event' was dished out as a 'breaking news' on home-screens just like a magician brings 'a rat out-of hat!'

Western viewers were tuned to swallowing every inch of the TV footage. In Arab streets the 'catch' was doubted. Some of the unsuspecting Arabs thought it was a doppelganger. Saddam was reputed to having several of his likes to dupe would be assassins. Other Arabs saw it as a cowardice act of a fallen dictator. His dreaded Republican Army was to perpetuate his dynasty and to brutalise Iraqis. They were not to fight a holy war which he promised to the last ditch.

The dictator disdainfully refused to leave -probably to Russia -- to save his dynasty, spare widespread killing of Iraqis and destruction of the country at the hands of invaders. He thought that it would be dishonorable act. Now what is left of him and the country which he so ruthlessly ruled?

The verdict has already been pronounced on his life. Now it is just a matter of time for the Neo-cons to draw new lines on the Shiite, Sunni and Kurdish divide leaving the Iraqis to be at each other's throat. That may provide excuse and an escaping route to the 'flower children' to return home at the time of their choosing.

Fuehrer heard in rapt attention of the world that he had to leave in defeat but escaped personal disgrace, wanted to know what had happened to 25 million dollar Texas styled reward poster. Who got it? Would it be divided among the troops? The curious master was answered that troops were on duty while the drama was in motion and as such they disqualify for the reward. Besides, their number was so vast in the desert, it would be too paltry a sum for each soldier to share. Since there was no further announcement jubilant Americans at the 'catch' might have forgotten about the poster. A likely scenario would be to give commission to certain 'lobby house' and to grab the sum for reelections campaign. In the midst of excitement, WMD which was the casus belli put on the back burner. That question was likely to emerge in the presidential elections in November 2004. But with "the bird in the cage", surely a mountain of caches would be 'discovered' before long from other

But all said and done, the message was not surely lost on yet another Arab "Revolutionary King" in south shore of the Mediterranean. Col Muammar Gaddafi, who claimed to be the "Massager of Revolution" and has been raising a dynasty for 34 years in the mirror image of Saddam, unconditionally gave way to Bush-Blair

An amazed 'Boss' congratulated Goebles for spectacular success in leaving behind his rich legacy despite retirement in 1945. But at the end Fuehrer regretted not having created a few doppelgangers for him so that he could have had a last laugh at his victors.

Former Amhassador M Shafiullah served Arab countries both at the Foreign Office in Dhaka and Bangladesh Missions in that region for several years