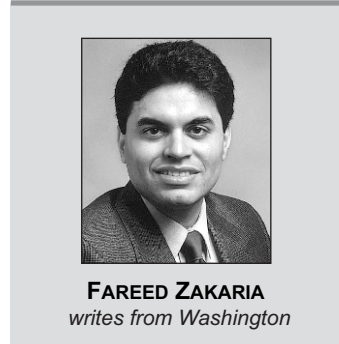


Adrift in a turbulent world



THE most important strategic decision the United States will make in the next decade is not about Iraq, Iran, or North Korea. It is about China. What will America's basic attitude be toward the rise of China? And similarly, the most important strategic decision that Beijing will make in the next decade is: how should it relate to the United States?

Depending on whether the answer to these questions is "cooperation" or "confrontation," one can imagine two very different 21st centuries. And yet in neither country does one get the sense that there is clarity on this subject. President Hu Jintao's visit to America this week -- where he will spend all of an hour with President Bush -- is unlikely to change the situation.

In the United States, attitudes toward China remain extremely mixed. Some Americans admire

But this narrow foreign policy means that China is not asking itself large and difficult questions. Does Beijing want to be a stakeholder in the current international system? If so, on what terms? And most important, will it be willing to pay the price that comes with great global power?

China for its economic success; others are fearful and increasingly combative. Some, particularly in the business community, commend the government for producing what can only be called an economic miracle. Others, particularly in Washington, criticize Beijing for its repressive tactics, and believe that its political and economic system is inherently unstable. As a result, Washington has within it elements that want to contain China and others that want to cooperate with it.

Deputy Secretary of State Robert Zoellick has tried to find an intelligent middle ground. In a speech last fall, he argued that over the past three decades, the United States has helped China move from isolation and poverty to engagement and economic growth. American policy, Zoellick said, is still to support a strong and growing China, but it's also one that pushes Beijing to use its growing power in beneficial ways.

"We now need to encourage China to become a responsible stakeholder in the international system," he said. "As a responsible

stakeholder, China would be more than just a member -- it would work with us to sustain the international system that has enabled its success." Zoellick outlined the list of issues -- Sudan, Iran, intellectual-property rights -- where Chinese actions are not consistent with this idea of being a stakeholder.

Condoleezza Rice has affirmed Zoellick's approach. But then there's Donald Rumsfeld, who has made far more suspicious and belligerent statements about China, giving the impression that the United States cannot tolerate China's growing military power. All US officials constantly hector the Chinese to open up politically, which many in China see as an attempt to weaken them.

One Chinese scholar, who asked to remain anonymous because the Beijing government doesn't like people criticizing the US, said to me, "We have moved 300 million out of poverty in the last three decades. And just as we have become powerful, you want to make us ungovernable like Iraq or Nigeria."

In Congress, there is an increas-

ingly irresistible temptation to talk tough with China (there's only a political upside, with no downside). These mixed signals make it unclear as to whether the United States wants to accommodate Beijing as a new rising power. For example, when IMF reforms are discussed later this year, will Washington help China to find a place at the table, or block its path?

American policy, for all its inconsistencies, is much clearer than Chinese policy. For most of the period since Deng Xiaoping's days, China has believed that accepting American hegemony was the path to its economic success. But Beijing is now engaged in its own internal debate over whether a confrontation between it and the United States is inevitable.

There are those who argue that it is -- that America is actively seeking to contain China, and that China must build up its position in Asia and the world to respond from a position of strength. China has made several moves that seem consistent with this approach, trying to create forums that would cut the US out of

Asia, and proposing agreements in which all Asian countries pledge to have no "foreign bases" on their soil.

On the other hand, Beijing has probably voted more consistently with the United States on the UN Security Council than any country other than Britain. It works hard to resolve issues that Washington raises, so that even a critic like Sen. Charles Schumer found Beijing highly responsive when he raised trade and currency problems on his recent visit there.

Chinese foreign policy is still mostly motivated by parochial concerns. Its officials are determined that Taiwan not become an independent country. They seek energy, and take it where they can get it. But this narrow foreign policy means that China is not asking itself large and difficult questions. Does Beijing want to be a stakeholder in the current international system? If so, on what terms? And most important, will it be willing to pay the price that comes with great global power?

When they meet, presidents Bush and Hu should focus less on the pirating of DVDs and start talking about these basic issues. Otherwise, on the greatest long-term strategic issue facing the world, we will remain adrift.

Fareed Zakaria is Editor of Newsweek International.

Choosing between rulers and leaders

The leader inspires by example, the ruler inspires fear; the leader crafts an attractive vision of the future, the ruler only confuses it; the leader engenders hope, the ruler hopelessness. In working with people the leader delegates, the ruler controls; the leader builds consensus, the ruler dominates; the leader brings issues into the open, the ruler keeps issues cloaked in secrecy and intrigue; and the leader seeks out the best and the brightest, while the ruler is interested in succession.

DR. SYED SAAD ANDALEEB

WITH the elections looming on the horizon, once again the citizenry will be called upon to decide who is most likely to give them a better future. That decision, as I can gauge, is wrought with many uncertainties and questions. On more lips than I can count, the two big questions that seem to arise frequently are: 1) Whether the election will be a mere charade, expending crores and driving the country into chaos, and 2) whether there are any choices of candidates who would make a "real" difference.

In a nation of 140 million people, as many scan the horizon, there appears to be no sign of a different breed of politician. Consequently, the nation's future seems likely to be held hostage to the past. However, according to a BBC poll, if 83% of the population does not feel that the politicians reflect their views, it is obvious that something must change -- either in the attitudes and behaviors of present-day politicians or in who will ultimately hold the reins of power.

Recent deliberations in The Daily Star have begun to reflect the exasperation that many are beginning to express more vociferously about the political choices at hand. No one seems to be happy. Mr. Syeduzzaman, Mr. Jalil, Ms. Siddiqui and others have laid out key issues of concern. One brings up the matter of inclusiveness, another of how the civil society movement will merely end up as a "cocktail party" conversation piece, while a third fears the same dirty and divisive politics that might ensue within the Citizens' Group. These are substantive matters. I may add the credibility issue: How widely are those in the "group" known? Is a class issue likely to surface? Whether Grameen Bank's interest rates, a subject of great controversy, become a liability with Dr. Yunus as a prominent member of the group?

Despite the challenges, uncertainties and the feelings of hopelessness, this is a time when "the people" can make a difference for themselves by making sure their choices are aligned with their interests. Many of them are hurting in innumerable ways because of the quality of politics and governance they have endured from all past regimes. If they want change, they must engage, they must choose, and they must let their vote and voice resonate with their true feelings. Dr. Yunus's call for honest and competent people to be chosen is a step in the right direction. However, I think we need to go a bit further: we need "leaders." Honesty and competence are desirable attributes, but

they do not necessarily a leader make! A good first step, therefore, is to make the crucial distinction between rulers and leaders.

The leader inspires by example, the ruler inspires fear; the leader crafts an attractive vision of the future, the ruler only confuses it; the leader engenders hope, the ruler hopelessness.

In working with people the leader delegates, the ruler controls; the leader builds consensus, the ruler dominates; the leader brings issues into the open, the ruler keeps issues cloaked in secrecy and intrigue; and the leader seeks out the best and the brightest, while the ruler is interested in succession.

As a person the leader is selfless and epitomizes sacrifice, the ruler is immersed in his/her ego and greed; the leader shares praise, the ruler claims it all; the leader is humble, the ruler arrogant; the leader is trusted, the ruler feared. And the leader is proactive, while the ruler is reactive (as our scrambling politicians seem to be exhibiting presently).

As influence agents, the leader's words can energize the nation, the ruler's rings hollow; the leader is not afraid of change, the ruler is terrified of change; the leader is concerned with the moral exercise of power and the good of the many, the ruler exercises power -- moral or immoral -- for personal ends. The list is much longer, but the distinction should be apparent.

Based on history and past performance, the above criteria -- along with honesty and competence -- ought to enable the people of this nation to make a clear distinction and choose wisely. In addition, it is important that the selection criteria reflect the following: the candidates must be educated (not just have paper certificates). While it is hard to define this attribute, one knows an educated person when one is seen!

One way to sift through the list of candidates is to present them on the national media to debate their issues and concerns; the enlightened ones will surely shine as a beacon. In the US, town hall meetings are held that are nationally broadcast for voters to assess their likely leaders. With all the TV channels in Bangladesh today, similar procedures must be instituted for the candidates to demonstrate their calibre.

Candidates must also be required to present their public service records where both failures and successes are open to public scrutiny. Next in line are their tax records and bank accounts: the candidates must declare all they have and avow publicly that they

have nothing else to claim at a future date that has not been declared. The same thing should apply to their properties with a justification of how it corresponds to their incomes. These criteria should bring to the surface the most viable candidates.

As I have said in the past, "choices have consequences." By making the above criteria widely known and thoroughly discussed at every level, candidate selection may be better facilitated. This is where the Citizens' Group can make a difference.

Given the above criteria, some may despair about finding the "right" candidates. I believe they are there. Despite facing difficult odds -- over the past 35 years -- of corruption, injustice, insecurity, favoritism, fear, poverty, mistrust, bureaucracy, and religious radicalism and intolerance, the indomitable spirit and the positive and persevering force inherent in this nation has battled all odds and shown surprising rates of growth in the region: an exemplary accomplishment not "because of" but "despite" the quality of governance they have endured, bred long before the country's liberation and sustained and solidified post-liberation.

Clearly, the leadership is there; what is now needed is their identification based on the proposed criteria, wide discussion about them in their communities, bringing them to the public forum, and providing them commensurate support. If this nation wants a new generation of exciting leaders to chart out a brighter path -- nay, a destiny for this nation -- the educated, the concerned, the social reformers, the civic leaders, technocrats, entrepreneurs, and the visionaries must all emerge from every crack and corner of this nation and engage vigorously and energize the masses to find a set of dynamic leaders and send them forth to the pinnacle with unstinted support.

This requires involvement, organization, dedication and mobilization, a process that seems poised to begin. And if the past is any reflection -- from human chains to massive protest rallies -- it is possible to get such a process on track again. Perhaps then a new era of hope might dawn upon this nation. Alternatively, as I have said before, if those who can make a difference choose to sit in their cozy corners and let the events of the next election happen to them, they shall have relinquished the right to complain for yet another term.

Dr. Syed Saad Andaleeb is a professor at Pennsylvania State University, Erie, USA.

Breaking free from Thaksin's democratic entrapments

But two things are clear -- the Constitution is alive and well, and the public's awareness of their ballot power has increased. Vibrant public participation in debates, more transparency from those in power and eliminating conflicts of interest should become the template for the future of Thai democracy.

KAVI CHONGKITTAVORN

LET US be clear, Thaksin Shinawatra is the failure of Thai democracy. It is not Thai democracy itself, which has taken 75 years to evolve, that has failed. Unfortunately, many people outside this country have taken up this latter view vehemently.

Despite its imperfections Thai democracy has served the country well so far, as the 1997 people's charter aptly manifested. While the current constitutional framework is well laid out with checks and balances as well as independent monitoring mechanisms, it is those who are in power that are ill-intentioned.

Thaksin is exceptional when it comes to exploiting existing loopholes. After the House dissolution in February, Thaksin's mantra has been "doing things right," or "lend tam katikha," by applying and arguing for the legality of his actions.

This should have been the guiding principle of Thai democratic development in the future if it were not for Thaksin's flippancy and dishonesty. After all, it was hard to fault Thaksin and his legal team, some of whom were also former charter drafters, as they constantly

pointed out they were following every rule of political engagement, but without saying that they did it with evil intent.

By now, it has become clear to everyone that Thaksin does not have either the credibility nor the morality to serve as the custodian of Thai democratic values, let alone claim to represent them.

This is an important point. Most of the arguments supporting Thaksin's actions have so far dwelt only on their legality, without considering ethics and morality of leadership. Taking the bizarre April 2 snap election as an example, it was clear from the beginning that the whole arrangement was a fraud. But the Election Commission turned a blind eye to everything that was wrong. Since the poll, the vote counting has been slow and one can easily deduce that there has been ballot-stuffing going on.

If the current Election Commission is made up of men with integrity, the electoral outcome should be nullified. Irregularities will surface and receive media attention.

Under the leadership of Police General Vasana Pueamlarp, the commission has become a stooge for politicians. Complaints from

opposition parties and civil organizations are not taken up seriously for investigation.

To compound the problem, the agency has chosen to muddle on with by-elections on April 23 in hopes of convening a full House in early May.

Obviously, when it comes to elections, the Western media and international community at large will not tolerate any poll boycott as they view elections as a sacrosanct feature of democracy.

Rigged polls, in their view, are better than no polls at all. That helps to explain why many dictatorships are working hard to hold elections -- rigged elections, that is -- or else they could be faulted for not allowing people to exercise their choice.

For Thaksin, it has been a triumph of media propaganda. In addition, almost every newspaper and editorial around the world has said that Thaksin resigned as a prime minister.

He has not yet done that. What he said was that he would decline the premiership in the next government. He resigned from a position that he did not yet hold, which is preposterous.

Before he left for Europe, he said the government could be formed on

May 5 following the convening of the new House of Representatives - a clear indication that the Election Commission is determined to push the by-elections through, whatever it takes.

That means there will be repeat by-elections in various constituencies until all 400 constituency seats are filled.

Thaksin and his lawyers will proceed with the opening of the House by saying that the current political impasse needs to be overcome or else the caretaker government will stay on forever and political reform cannot begin.

When Thaksin declared in a live TV broadcast on April 4 that he would serve as caretaker prime minister until the next government is formed, he gave the impression that it was the outcome of the King's whisper to him.

Certainly, nobody can confirm this. But it was important for Thaksin to give this impression, as it would pre-empt any attempt to pressure him further.

Apparently, the Thai Rak Thai will continue to dominate the political reform process after the selection of a planned constitutional reform committee made up of members drawn from various disciplines.

The amendment of the Constitution will take roughly a year, after which it will be put to a national referendum.

Sad to say, the two-month-long struggle by the People's Alliance for Democracy (PAD) would have been more effective and dramatic if its

leaders had pressed for political transformation without Thaksin's leadership.

The PAD's appeal for royal power and assistance, which were seen as signs of helplessness, had the opposite effect altogether. It allowed Thaksin to sustain his political presence.

Thai Rak Thai insiders are confident that the party's "doing things right" approach will vindicate them eventually. For one thing, there will not be any "divine" interference, as many would have hoped, and the party will continue to excel at what it does.

In the long run, Thaksin remains the pitfall. He will be more dangerous as he could further divide Thai society with his wicked schemes.

His complete lack of core values makes him a genuine political monster.

The trail of destruction he has wrought in Thai society will become more visible.

It remains to be seen how this ongoing political turmoil will eventually end. As of now, nothing has been settled.

But two things are clear -- the Constitution is alive and well, and the public's awareness of their ballot power has increased. Vibrant public participation in debates, more transparency from those in power and eliminating conflicts of interest should become the template for the future of Thai democracy.

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Empowering Bangladesh Bank: Lessons from the story of the US

Bangladesh Bank does not have to shoulder all responsibilities. Given the constraints as they stand now, it should aim to achieve the capability to generate the monetary data, and make them public. Then the scholars in Bangladesh and abroad can do research from which the country will be benefited. If the new governor can build the capacity to generate the quarterly monetary and macro data, there are many scholars out there to do research on monetary policy on Bangladesh economy. Bangladesh Bank should not shrug off this responsibility just for not having autonomy.

MD. ABUL BASHIR

THE most influential institution in the American economy is the Federal Reserve System (widely known as the Fed), which is the central bank of the country. If American president is the most powerful person of the country, the chairman of the Fed is the second most powerful one. Perhaps the most respected person to all Americans in recent history is Alan Greenspan, who has recently retired after a very successful career as the chairman of the Fed.

He was replaced by a MIT graduate and noted Princeton Professor Ben Bernanke, who is well known among the academia for his seminal research on monetary economics. I had the opportunity to observe how the Fed steered the economy after 9-11, when the ongoing recession was further strengthened by the newly resulted shock in consumer

confidence among all American. Neither economists nor politicians spare any opportunity to idolize Alan Greenspan for the success of the Fed to steer the economy in the right track since he took over.

But the Fed was not always successful. Apart from the great depression, the Fed's failure was also obvious during the time of the double-digit inflation of early 1970s. The whole Volcker regime as the chairman of the Fed is identified as a period of failure. During the same time, the banking and financial sector of the US was also under some control. Through passing the Banking Act of 1933, congress empowered the Fed to control over the interest rates that a commercial bank can offer to the depositors. The Fed exercised this power immediately, and the policy on deposit interest rate ceiling over the next 53 years is known as Regulation Q. Small savings institutions were

exempted from this regulation. The objective of Regulation Q was to help the small savings institutions to collect more savings as they cannot compete with the big commercial banks. By collecting more deposits, savings institutions could loan it to the local communities.

The implementation of Regulation Q varied in different periods. During 1933 through 1965, the ceiling on the interest rates on deposits were above the interest rates on 3-month Treasury bill in all but a few months, and average interest rates paid by commercial banks on all savings deposits were below the lowest ceiling rate in effect. Therefore, Regulation Q was ineffective. But during 1966 through 1986, (Regulation Q was finally phased out in 1986), the 3-month Treasury bill rate was much higher than the ceiling on the deposit interest rate. As a result, the commercial banks lost huge amount of

deposits to the treasury bills. In fact, some research shows that such disintermediation was a significant contributor to the commercial bank failure in the US.

Like any other economic policy, monetary intervention implemented by the central bank cannot work in vacuum. The outcome of the monetary policy does not depend only on the policy input, but also on the transmission channel through which the changes in the monetary stances of the central bank transmit into the real sector. The most important channel is the bank lending channel. With the changes in the monetary stance of the central bank, the interest rate on deposits and loan as determined by the commercial banks will change. So the total deposit that a commercial bank can collect will change, which in turn will affect its ability to loan and the loan based consumption and investment demand. This is the

main way the central bank can steer the economy through the desired way.

But if the interest rate is arbitrarily determined and remains unresponsive to the change in the monetary stance, this bank lending channel will not work, and the central bank will be doomed to failure. This is exactly what happened during 1966 through 1986 in the US. The commercial banking system was indirectly controlled and was not responsive to the monetary stance of the Fed. With the phasing out of Regulation Q, monetary transmission channel in the US has become stronger. Emerging research is now showing that it was not only the "good monetary policy" but also a regulation free commercial banking system that contributed to the success of the Fed during the Greenspan regime.

The market interest rates in Bangladesh are still controlled. Such control weakens the channel to transmit the effects of changes in monetary stances of the Bangladesh Bank into the real sector. In an environment like that, there is nothing left for Bangladesh Bank to accomplish. The autonomy of Bangladesh is a much talked about issue in Bangladesh. But

what can even a fully autonomous Bangladesh Bank can do if there is no strong transmission channel?

A common perception about the central bank is that its sole responsibility is to implement appropriate monetary policy to promote economic growth and control inflation, and the political interest of the government does not allow the central bank to do that. The criticism of the politicization of the operation of the central bank is not unique only to Bangladesh. It is everywhere in developing countries. The immediate and long run effect of a monetary action varies. A policy may provide apparently positive result in the short run, which may reverse in the long run. The clever politicians make the best use of this to get reelected to the power in absence of the autonomy of the central bank. Government directs the central bank to implement a policy that will give some short run positive results before the election. So the voters are happy. By the time those ephemeral positive effects turn into adverse effects, election is over and the government gets reelected. This is known as political business cycle in economics. The existence political business cycle justifies the demand for the autonomy of the

Bangladesh Bank.

But implementing the right monetary policy is not the only task of the central bank. Another important responsibility is to generate and collect macroeconomic, particularly monetary, data. To implement the right monetary policy, central bank has to correctly forecast the future dynamics of the economy, and data are required for carrying out such research. Here lies the importance of the capability of the Bangladesh Bank to generate data and carry out research. Needless to mention how deficient is Bangladesh Bank to perform this responsibility. The job in the research wing of any branch of the Federal Reserve System (there are 12 branches) is one of the best academic job in the US. The Fed always gets the best students of the best universities, if not the very best universities, like Harvard or MIT. But this is not the fortune of the Bangladesh Bank. The full autonomy of the Bangladesh Bank, without being well equipped to generate information and carry out research will not bring any qualitative change in its activity.

Probably, the highest number of research papers on monetary policy in the US comes from the research wings of the Fed, but Bangladesh

Bank is totally unproductive. One very basic prerequisite for the design of an appropriate policy is to know the responsiveness of the economy to that policy. For example, if the Bangladesh Bank wants to achieve a target output by changing the interest rate, then it has to know what will be change in output if the interest rate is increased/decreased by one percent. This is what the economist calls elasticity. Bangladesh Bank does not have a precise estimate of such elasticity yet, then what good does the autonomy bring to it?

Bangladesh Bank does not have to shoulder all responsibilities. Given the constraints as they stand now, it should aim to achieve the capability to generate the monetary data, and make them public. Then the scholars in Bangladesh and abroad can do research from which the country will be benefited. If the new governor can build the capacity to generate the quarterly monetary and macro data, there are many scholars out there to do research on monetary policy on Bangladesh economy. Bangladesh Bank should not shrug off this responsibility just for not having autonomy.

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