

US benefits from trade with China: Hu

AFP, Washington

Talks here Thursday between presidents Hu Jintao of China and George W. Bush of the United States Thursday will focus on foreign policy and trade, which the Chinese leader insists is the backbone of US-China relations.

Before arriving here late Wednesday, Hu made a speech in Everett, Washington, urging the United States not to let trade disputes damage Sino-US relations, emphasizing that China's fast growth provides tremendous opportunities for America.

"China's development will present enormous business opportunities to the United States and other countries," Hu told a luncheon attended by about 600 business leaders, government officials and others in the Greater Seattle area.

"China has a huge market and

big demand for America's advanced technologies and management expertise."

Speaking on the second day of his first official US visit, Hu said it was "hardly avoidable" that trade frictions would occur given the sheer size and rapid growth of the countries' two-way trade, but differences should not be politicized.

"We should properly address these problems through consultation and dialogue on an equal footing as we work to expand our business ties," Hu said.

Hu's visit comes amid brewing trade disputes between the two countries, growing concern of US lawmakers over human rights in China and increasing pressure to have China play a bigger role in coping with the nuclear ambitions of Iran and North Korea.

Hu is expected to receive a grilling from Bush on trade issues

such as China's undervalued currency, insufficient market opening and rampant piracy -- all of which critics said contributes to the record 201 billion dollar US deficit.

Hu, however, argued that the China trade has saved American consumers billions of dollars and created millions of jobs and brought "great benefits" to both sides.

US companies doing business with China also have made profits, he added.

Hu insisted China was working hard to reduce its trade surplus with the United States, but that the surplus was a natural outcome of changes in US industry and of globalization.

"At least 90 percent of US imports from China are goods that are no longer produced in the United States," Hu said.

The world and Bangladesh economy

MAHBUBUR RAHMAN

The year 2005 will be remembered for many shocking news. People, mostly civilians, continued to die in the Iraq quagmire. Terrorist attacks took place in many parts of the world, including Bangladesh. A certain quarters, in the name of religion, carried out a number of deadly attacks in different parts of the country, creating a sense of uncertainty in all spheres of national life. The situation, however, improved of late, due to some decisive measures taken by the government. A devastating hurricane—Katrina— swept over the Louisiana state in the USA as well as earthquake in Pakistan and Indonesia, sending shockwaves to the world at large. Besides, bombing at different places, including sub-way in London, Paris and other parts of the world also had negative impact on the world economy.

Global Economy: Trend in 2005

The world economy after a strong growth had slowed in 2004 and the trend persisted throughout 2005 as output began to push against capacity constraints. High oil prices, though benefited the oil exporting countries, had made significant erosion in the incomes of oil importing countries. However, economic expansion remained strong, thanks to favourable conditions in the financial markets and low inflation.

The world GDP is estimated to have increased by 3.2 per cent in 2005, down from 3.8 per cent in 2004. The growth rate, however, was found to be strong in spite of the fact that most economies grew at a slower pace. The slowdown was felt throughout the industrialised world with Europe performing well below its potentials. The performance of the USA and Japan was comparatively better.

China and India continued their high growth rates—in excess of 9.0 per cent and 7.0 per cent respectively. The economic growth of the oil-importing countries declined from 6.9 per cent to 6.1 per cent because of high oil prices, domestic capacity constraints and slower import demand from high-income countries.

In the commodity markets, non-fuel commodity prices which were more or less stable until March 2004 continued to rise since then due to both strong demand and disruption in supply. The situation was altogether different in the case of petroleum. In spite of moderate growth in supply, the global oil prices continued to be high and volatile as it was driven by continued strong demand and supply uncertainties.

The growth of global trade in 2005 decreased, mainly because of decline in exports from both developed economies and other emerging markets. However, exports from developing countries maintained its growth momentum.

The global economic expansion continued to receive support from favourable financial market conditions in 2005. The long-term interest rates were very low. The equity markets across the globe were resilient with credit spread remaining moderate.

In foreign exchange markets, the US dollar appreciated modestly during first seven months of 2005 despite rise in the US current account deficit due mainly to rising interest rate differentials relative to European short and long term assets. But the dollar faced renewed pressure following a decline in private flows.

External trade is an important and integral part of any economy, big or small. It has assumed far greater importance because of globalisation. All of us are aware, how globalisation has created opportunities for economically powerful countries and which should have been equally the same for their poor counterparts. However, the latter could not avail themselves of such opportunities due to capacity constraints and various protectionist measures by the rich nations. The Doha Development Round started in 2001 had raised some hopes among the poor countries about a fair deal. But they were terribly disappointed by the outcome of the Cancun Ministerial held in 2003. The poor countries again pinned their hopes on Hong Kong Ministerial held in December 2005. But even after a few months since the Ministerial Declaration, LDCs are not quite sure about their gains and losses since their fate will be decided in future meetings in Geneva and Washington this year.

Outlook for 2006

The global economic growth is expected to sustain at the preceding year's 4.3 per cent, supported by 'macroeconomic policies, benign financial market conditions and increasing solid corporate balance sheets'. Germany, France, the United Kingdom, Italy, Canada and newly industrialised Asian economies are likely to experience in output growth.

The growth of US economy will decline with higher oil prices and tighter monetary policies offsetting the positive stimulus to growth from past depreciations. Japan is expected to maintain status quo so far as economic growth is concerned. Growth in developing economies is projected to slow-down modestly. But in East and South Asia, the expansion is expected to remain very strong, particularly in China and India.

The oil price trend is likely to continue as a sore point of the global economy. The projected slowdown of the global economy is not expected to be sufficient to ease the oil prices in the short-term. Though crude oil production has been growing marginally, supply conditions are expected to remain rather tight. The World Bank predicts that oil price that hovers between 60 and 70 dollar a barrel might come down to 56 dollar in 2006. However, much would depend on the easing of the tension over Iran's nuclear programme. Any disruption in oil supply from the Middle East would have a negative impact on the growth.

Some economists tend to compare the present global economic scenario with that of 1970s when global inflation had taken off. However, they are certain that the

independent central banks are less likely to repeat the policy blunders that they had committed then.

The growth in the volume of global trade in 2006 is expected to increase slightly and remain at the double-digit level for emerging and developing countries. Weaker global growth is likely to reduce the strain in non-oil commodity market. Already there are signs of stabilisation and even decline. Because of such decline in non-fuel commodity prices, there is a possibility that inflation would come down in emerging and developing countries.

The terms-of-trade impact for low-income oil-importing countries would reduce income of those countries by more than 4.0 per cent of their GDP. These countries remain vulnerable because of the fact that a supply-shock induced increase in oil prices may not result in the hike in non-oil commodity prices.

Bangladesh Economy in 2005

The economy of Bangladesh had gone through a difficult time in 2005. It had to face serious challenges, man-made and otherwise. The government initiated various measures to overcome the dampening effect of the devastating floods. In addition to persistent problems relating to law and order, governance, corruption, infrastructure, etc., the economy had to confront with soaring prices of basic consumer commodities and petroleum products in the international market.

Many market pundits had portrayed a doomsday scenario for the Bangladesh's RMG following the phase-out of the Multi-fibre Arrangement (MFA) from the day one of 2005. But they were proved wrong. The withdrawal of quota system did not have any major impact on the RMG exports. Rather, export of knitwear increased substantially and that of woven garment marginally.

The government and the central bank took up a number of measures to help reduce the impact of the external factors. However, in spite of negative developments, the GDP during the fiscal 2005 recorded a growth of 5.4 per cent, which was lower by 0.9 per cent than that of the preceding fiscal. Much of the challenges from the external sector could be faced successfully, mainly because of continuing rebound of exports, imports and remittances. The improvement in industrial production and services had helped expansion in both domestic and external demand. The agriculture growth decelerated by 0.3 per cent in the fiscal 2005, mainly because of reduction in the production of crops

and horticulture sub-sectors.

The inflation rate, according to the central bank, reached the highest level in recent years because of rise in the prices of food items and some other imported goods tempted by depreciation of the Taka and demand pressure generated by higher growth of credit to the private sector. In the month of August the overall consumer price inflation on point-to-point basis increased to 7.93 per cent. Food inflation also increased from 8.73 per cent in June 2005 to 9.43 per cent in August. The situation improved at the end of the year following improvement in food supply situation. To rein in the rising inflation, the government resorted to a contractionary monetary policy in the face of protests from the private sector. The Bangladesh Bank is still pursuing its tight monetary policy casting a negative impact on business and investment. However, the overall credit flow to the private sector was more during the year under review than that of the preceding year.

Although the current account balance turned from surplus to a deficit, the overall balance of payments continued to be surplus throughout the year. Thanks to the healthy growth in remittances and increased export earnings, besides the flow of development assistance and foreign direct investment which had helped the country to maintain a reserve necessary to finance imports for more than two and a half months. Remittances by Bangladesh expatriates were increased by US\$ 678.76 million or 19.3% during 2005 to US\$ 4249.92 million as compared to that of US\$ 3571.16 million in 2004. The exchange market remained more or less stable despite occasional volatility. The pressure on Taka-Dollar exchange rate persisted throughout 2005. The value of Taka depreciated due to higher demand of foreign exchange originated from settlement of letters of credit (LCs) mainly for capital machineries notwithstanding a steady flow of sizeable workers' remittances and export earnings. The central bank sold a substantial amount of foreign exchange to the nationalised commercial banks (NCBs) to pay for the rising oil import bills. Meanwhile, the central bank had time and again blamed a section of private banks for contributing to the forex market volatility through poor management of their funds.

Country's stock market after being slightly buoyant during the first part of 2005 recorded a decline in the later part of the year. Hike in the yields of the government saving

instruments and the rate of interest on term deposits had a dampening effect on the stock market. However, a record number of initial public offerings (IPOs) were floated during the year. Baring a few, most of the IPOs were heavily oversubscribed. The government could have made the capital market more vibrant by offloading its shares in the capital market. Government should, therefore, consider early offloading shares of nationalised commercial banks as well as state-owned enterprises including its stakes in multinational companies.

The private commercial banks (PCBs) witnessed a hefty growth—over 30 per cent—of their aggregate operating profits in 2005. Most of the third generation banks that started operation in the late 1990s performed well in terms of operating profit. However, at least eight PCBs faced provisioning shortfall.

So far as the availability of power and gas is concerned, the situation deteriorated in 2005 than that of the preceding year. Many industrial units suffered due to erratic supply of gas. The power supply situation turned from bad to worse in 2005 as the supply fell far short of the demand. During the last four years only 80 MW power could be added to the national grid through a plant established at Tongi. However, the plant inaugurated only a few months back remains inoperative because of inadequate gas supply and some technical problems. Another move initiated in 2005 to set up a dozen of small power plants in the private sector had fallen through because of interference by the influential quarters. The programme was subsequently shelved because of adverse media reports and objections from the World Bank. It is estimated that the country's total demand during peak season is about 4,500 MW against which the supply ranges between 2,800 to 3,100 MW (subject to operation of all the existing power plants). The power crisis has created dissatisfaction among the rural masses in particular the farmers. As the uninterrupted sufficient power supply is the backbone of any economic development, it is essential to undertake immediately both short and long-term action plan to meet the projected demand. Without such an action plan the country will not be able to have industrialisation and attract foreign investment.

TO BE CONTINUED

The writer is the president of International Chamber of Commerce (ICC)-Bangladesh. This article is an abridged version of the speech presented by Rahman at the ICC Bangladesh Annual Council 2005 held on April 15, 2006.



PHOTO: GP

Mir Rashedul Hossain, deputy head of corporate sales of GrameenPhone (GP), and M Rakibul Hasan, director of Taslima Group, sign an agreement on behalf of their companies recently. Under the deal, GP will offer complete communication facilities under its 'Business Solutions' package to Taslima Group.